Accountancy

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Professional Notes

295 The New Stock Exchange Charges
295 Rights of Crown in Liquidation
296 Development Charges—
296 —And Compensation Claims
296 Clerical Salaries
296 Waste from Audit "Economies"
297 Our Cover and Paper
297 The Two Purchase Tax Committees
298 Management Accounting Course at Balliol College
298 Denationalising Iron and Steel—
298 —And the Industry's Long-Term Development

SHORTER NOTE

298 National Insurance—Wife in her Husband's Business

Editorial

299 The Valuation of Goodwill

Leading Articles

300 Shareholders, Directors and Accountants
301 Merger of Debts—The Problems of Further Security
303 Sixth International Congress on Accounting: The Technical Sessions—III

Taxation

ARTICLES

306 Excess Profits Levy—III. Groups of Companies
307 Late Tax Appeals
308 The Royal Commission

NOTES

311 Non-residents' Reliefs
311 New Tax Reserve Certificates
311 Taxation in the Republic of Ireland

NOTES—*continued*

311 Double Taxation—Western Germany
312 E.P.L.—Official Help
312 Canadian Tax Foundation
312 Removal of Purchase Tax Office

312 RECENT TAX CASES

THE STUDENT'S TAX COLUMNS

316 Patents and Income Tax

317 *Publications*

Readers' Points and Queries

319 Repairs to Recently Acquired Business Premises
319 The Excess Profits Levy as Amended
319 "Permanent Discontinuance"
319 Deceased Partner's Capital

Finance

320 The Month in the City
321 Points from Published Accounts

Law

322 Legal Notes

Society of Incorporated Accountants

323 Council Meeting
323 Registration of Bye-Law Candidates
323 Events of the Month
324 District Societies
324 Examinations, November, 1952
324 Personal Notes
324 Removals
324 Obituary

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Professional Notes

The New Stock Exchange Charges

A NEW SCALE OF CHARGES, PROPOSED BY THE COUNCIL OF THE STOCK EXCHANGE, was circulated to members last month. If approved, it is expected to come into force in November. The consensus of opinion about the new scale among stockbrokers is not yet known, but outside commentators have not been slow in offering their criticisms. The new scale, it is argued, will mean higher commissions on dealings, at a time when the Stock Exchange should be doing everything possible to encourage, rather than to deter, business.

It is difficult for the outsider to weigh up the force of this argument. While the new scale certainly lifts commissions on the average, there are important transactions on which the charges will be unchanged, or even smaller than before. In particular, small transactions of less than £100 in value will carry the same commission as before and the lowest priced shares (up to 2s. 6d. each) a reduced one. These and other concessions to the small investor show that the Council is concerned to widen the base of business. But there is the difficulty that it is precisely the small investor's business which is at present least remunerative, and that the brokers with little institutional business have suffered most from that disproportionate rise in costs in relation to turnover which, generally speaking, the new scale is intended to correct. It is doubtful whether small investors' business will grow sufficiently to ease appreciably the lot of these brokers, failing other measures to popularise investment in stocks and shares.

The larger, especially the institutional investor, who will on the whole pay more on transactions, can hardly object to what is virtually the first increase in charges since before World War I. Yet on a long view institutional business is unlikely to expand sufficiently, in the face of new economic and financial trends, unless more is done by the Stock Exchange to divert the flow of funds towards its members.

The proposed reduction in agents' rebates, being coupled with the higher rates of commissions, is calculated not to lower their actual remuneration. But certainly it is not a positive encouragement of the agency system, the development of which seems to offer a main hope of further popularising Stock Exchange business.

Rights of Crown in Liquidation

Upon the dissolution of a company everything that belonged to the company immediately before the dissolution is deemed to be *bona vacantia* and becomes the property of the Crown. Normally a company is not dissolved until it has been wound-up and its assets have been distributed among creditors and shareholders, so that there is nothing left to become *bona vacantia* upon the dissolution. Occasionally, however, a company may be dissolved before the winding-up. This happened, for example, with Russian companies which were dissolved at the Revolution of 1917 but left assets in England. In instances of this kind it is usual for the winding-up order to contain a paragraph that the order is without prejudice to the claim of the Crown to any of the assets of the company which might be *bona vacantia*.

In a recent case (so far unreported) resulting from a summons by the liquidator of the *Banque Industrielle de Moscou*, a winding-up order containing this paragraph had been made and the

liquidator asked whether the Crown was entitled to get in any assets of the company in priority to him. The Court held that the liquidator had control over the company's assets; he was empowered to collect all the assets within his reach and to distribute them among creditors. The paragraph about *bona vacantia*, it was held, only qualified these rights to the extent that it preserved the Crown's right to any surplus that might remain after the liquidator had carried out his duties. The Court added that the form of the paragraph in any future winding-up ought to be carefully considered.

Development Charges—

According to the fourth annual report of the Central Land Board published in July, £3·9 million was collected during the year ended last March in respect of development charges. Tak-into account a further £1·5 million set-off against claims for depreciation of land values, the total development charges levied last year amounted to £5·4 million. This brings the total for the past four years into the region of £15 million.

—and Compensation Claims

It will be recalled that some surprise was caused last February by the Chancellor of the Exchequer's statement in the House of Commons regarding claims against the central funds of £300 million. The estimated total of all claims for loss of development rights was a good deal smaller than had been expected by claimants. The Central Land Board's report now confirms the Chancellor's optimistic statement, and shows that by the end of 1951-52 the Board had determined aggregate development values in England, Wales and Scotland of £204 million. If this total is increased by the addition of the preferential classes of claims, anticipated to absorb £100 million, it would appear that the £300 million compensation fund has just been exceeded. With only 7 per cent. of the total claims still to be determined, it is reasonable to expect that the non-preferential claimant will be compensated at the rate of 16s. in the pound, or possibly more.

Commenting on the Board's advice to buyers not to pay building prices for land if they also have to pay development charge, the report states that many have disregarded this advice, "presumably because they were prepared to pay an excessive price for a particular piece of land which they wanted urgently." Now that dealers in land are better able to assess the approximate value of claims for compensation under Section 58 of the Town and Country Planning Act, 1947, the practice of assigning the seller's claim to the buyer will no doubt continue, especially where the sale takes place at building value. The practice is understandable, because it gives the buyer an asset which he can set off against any subsequent development charge.

Clerical Salaries

The large body of clerks who work in accountants' and lawyers' offices is unfortunately not represented in *Clerical Salaries, 1952*, the latest in the series of biennial surveys issued by the Office Management Association. But much statistical information is given on salaries paid in industry and commerce, and a special section is devoted to clerks in public offices, nationalised industries and banking. Returns were obtained from a representative selection of 526 commercial and industrial establishments, covering 56,414 clerks. These are classified in six grades, A to F, ranging from the most elementary duties of running errands, sorting, etc., to supervision of sections and the application of special knowledge and judgment.

Since 1950 the increase in clerical salaries has on average approximately kept pace with the increase of 18 per cent. in the interim index of retail prices. The largest increase has been among male clerks in grades A and B, but this is partly accounted for by the shortage of office boys and the consequent necessaity to employ older clerks on elementary work.

It is suggested that clerical work is not attracting as large a proportion of boys leaving school as in earlier years. But the falling numbers may partly reflect a general trend in population figures.

Women clerks represent 64 per cent. of the total, but more than half of them are under 25 years of age. There are, therefore, more men than women in the higher grades. The gap between the salaries of adult men and women doing similar work was unchanged as compared with 1950, after decreasing rapidly between 1946 and 1950.

Analyses are given by industries and by areas. The City of London, owing to the higher cost of travelling and of living in London, continues to be "the outstanding area of high clerical salaries."

Clerical Salaries, 1952, is published by the Office Management Association, Ltd., 8, Hill Street, London, W.1, price 25s.

Waste from Audit "Economies"

Concern at the inability of the Exchequer and Audit Department to conduct its audits of Government Departments efficiently in the face of staff economies is expressed by the Public Accounts Committee in its Third Report for 1951-52.

Some six years ago, a maximum of 546 was fixed for the staff of the Exchequer and Audit Department, but the actual number never rose above 510. The Treasury have insisted that the Department should make a contribution towards the cuts in staff imposed generally on the Civil Service by the present Government and "would not necessarily regard the fact that they were losing money (through incomplete audits) as a ground for not reducing the staff in the present manpower position."

The Public Accounts Committee retorts that it is not convinced that economy in staff and economy in money can properly be dissociated. An efficient audit, it says, is a vital factor in securing economies, but "any audit must suffer a loss of efficiency if the degree of test applied is reduced below a reasonable level." A staff of just over 500 cannot be regarded as excessive, it continues, to carry out a test audit of transactions costing, in pounds sterling, ten million times that figure. The Comptroller and Auditor General had stated in evidence to the Committee that he could carry out a thorough examination of the expanding defence programme only by cutting the audits of civil expenditure, which he considered very fruitful. He gave particulars of large sums of money recovered as a result of the audits. In addition, an

efficient external audit had a general effect, deterring extravagance and waste.

There can surely be no disputing the arguments of the Public Accounts Committee, except by those whose ideas of economy are quite irrational. It is as encouraging to read its strongly worded views on the economic value of auditing as it is appalling to find the Treasury willing to lose public money for the sake of a trifling saving in audit staff.

Our Cover and Paper

Most journals have found their accounts thrown badly awry by the phenomenal advance in the price of paper and the persistent rise in printing costs. Many old-established publications have, in fact, quietly expired, and almost all the survivors been obliged, like ourselves, to put up their subscription rates. We take some pride, however, in having kept the rise in our rates to comparatively modest proportions—and we are determined to do our utmost to avoid having to raise them again.

Fortunately, at the moment paper prices seem to have passed their peak, but it will be some time before the benefit of the slightly easier prices accrues to publishers—and who would have the temerity to aver that no loftier mountain lies around the corner? We decided some months ago that the inflated item, "cost of paper," in our accounts must be brought down to a more reasonable figure in the shortest possible time, regardless of the state of the paper market, and even with some sacrifice in the appearance of the journal. We are reluctant to lose the cover specially designed for us a few years ago, for it has been generally accepted, we think, as one of the most attractive among the professional journals. To use a thinner and cheaper paper for our cover means, however, that the white panel and printing has to be foregone, with consequential saving in machining costs. The result, in black printing alone, keeps the main outline of the design, as readers will notice from this issue of ACCOUNTANCY, but we cannot pretend that the new cover is as becoming as the old. But it is considerably cheaper! As from the next issue, that for October, we shall also be using a cheaper paper for the inside of the journal, but we hope that this change will be less noticeable; indeed, we suspect that many readers will prefer the new paper, the use of which will bring a further important saving in our paper bills.

The Two Purchase Tax Committees

We reported in our issue of July last (page 223) the appointment of two committees on purchase tax. Both committees have now started work. One committee, which is under the chairmanship of Sir Maurice Hutton, has the following terms of reference:

> To examine the position of traders holding stocks of goods on which purchase tax or other duties of Customs and Excise have been paid, on an alteration of those rates of tax or duty; to consider how far there is a case in principle for the payment of compensation at the expense of the Crown for loss occasioned by a reduction of tax; in so far as the committee considers that there is a case in principle for such compensation, to report what detailed arrangements can be recommended as being practicable and equitable as between one trader and another and as between the trade and the Revenue; and to make such supplementary or alternative recommendations as it may think fit.

The committee will receive evidence, which in the first instance should be in writing, from any interested person or organisation. It would assist the committee if any individual trader who wishes to submit evidence would do so in the first instance through the appropriate trade association. Where more than one trade association has a similar interest in the question, it would be convenient if joint evidence were submitted. Representations should be addressed to the Secretary, Committee on Tax-paid Stocks, King's Beam House, Mark Lane, E.C., by September 15.

The terms of reference of the other committee, called the Purchase Tax (Valuation) Committee, of which Mr. Frederick Grant, Q.C., is chairman, are:

> To examine the representations of traders as to the principle of assessing purchase tax at a common value level; and to make recommendations as to the manner in which this or any alternative principle should be applied in valuation for purchase tax, having regard to the different points in distribution at which the tax has to be levied.

Evidence, in the first instance in writing, may be submitted to the Secretary (at the same address as the first committee) by September 15, and, again, individual traders should, if possible, submit representations through their trade association.

We have commented a number of times on the problem to be considered by the first of these committees (see the references in our July issue, page 223). The second committee has to tackle the difficult question of "uplift." Purchase tax is assessed on wholesale values—the committee will examine whether this is the proper basis of assessment—and when manufacturers sell direct to retailers, the practice has been to add a percentage to the price to arrive at the theoretical wholesale value. But manufacturers maintain that this "uplift" is unjustified on the grounds that their price to retailers includes an element of wholesaling expenses. A recent development has been the waiving by the Customs of "uplift," in part or whole, on certain conditions. The committee will no doubt consider whether this new and more reasonable procedure should be extended.

Management Accounting Course at Balliol College

The Incorporated Accountants' Course on Management Accounting will open at Balliol College, Oxford (where facilities have kindly been granted by the Master and Fellows) on Friday, September 26. After dinner on that evening there will be an address by an industrialist, followed by preliminary meetings of the discussion groups.

The following further programme has been arranged:

Saturday, September 27

9.15 a.m. "Budgetary and Financial Control," by Mr. W. F. Edwards, F.S.A.A.

2.30 p.m. "Management Cost Problems in the Small Business," by Mr. P. N. Wallis, A.S.A.A.

8 p.m. Address on "Training Staff for the Effective Operation of a System of Management Accounting," by Mr. P. G. James, B.COM., F.S.A.A.

Sunday, September 28

10 a.m. Service in the College Chapel.

8 p.m. Address on "The Specialist in Practical Affairs," by Sir Henry Clay.

Monday, September 29

9 a.m. "Running an Accountancy Department," by Mr. H. W. Broad, A.S.A.A., Mr.

C. E. Watson, A.S.A.A., and an official of the Organisation and Methods Department of the Treasury.

2.30 p.m. "Accounting Form," by Mr. F. Sewell Bray, F.C.A., F.S.A.A.

The morning and afternoon papers will be followed by discussion in groups and then by a central discussion.

The course will disperse after breakfast on Tuesday, September 30.

All places have now been allotted.

Denationalising Iron and Steel—

The Government's White Paper on the Iron and Steel Industry (Command 8619. Price 4d. net), whatever its defects, seems to be a more reasonable exercise in denationalisation than the Transport Bill. The powers to be given to the new *Iron and Steel Board* should ensure such a degree of public supervision that the Labour Party may have to think twice before attempting to carry out its threat to re-nationalise the industry.

The Board will have power to supervise not only the whole of the steel-making industry but also the steel and iron founding industries, of which only parts were nationalised. It will pass judgment on the main development plans of the steel companies and will be empowered to fix maximum prices for sales at home. It will also have wide powers to review the distribution of raw materials and to control it in times of shortage. It will also safeguard the import of raw materials, if necessary by importing itself.

Imported materials may be sold below cost, the loss being recovered "from appropriate sectors of industry, as is done at present." The system of levies and subsidies within the industry is therefore to be continued with the Government's blessing.

Except presumably in the important particular just noted, the prices to be asked for the denationalised companies by the *Holding and Realisation Agency*, to which the securities will be transferred on the dissolution of the *Iron and Steel Corporation*, will have regard to "all relevant factors at the time of sale." Account will be taken of "the important changes which have taken place since denationalisation in the physical assets, capital structure, reserves, and trading prospects of many of the iron and steel companies, together with other considerations such as the monetary and market conditions prevailing at the time."

The Agency, after consulting the new Board, may re-group the companies or reorganise their capital structure. The existing Iron and Steel stock will become part of the National Debt and will lose its distinguishing name. The stock, and most other Government Stock, will be accepted—at the market values then current—in payment for the steel securities.

Without any knowledge of the detailed working of the system in future, a prospective investor in the denationalised steel industry will find it difficult to calculate the merits and profitability of any particular company.

The new proposals have not lacked critics. One of the most outspoken is Mr. W. H. Higginbotham, F.S.A.A., the chairman of *Edgar Allen and Co., Ltd.* At the company's annual general meeting last month, Mr. Higginbotham (who is a Council member of the Society of Incorporated Accountants) said that the imposition of control without acceptance of financial responsibility for its consequences was bad in principle. It was essential, he continued, that whatever replaced nationalisation should free, rather than restrict, those who had to manage the industry and should give them the fullest scope for the exercise of skill. This they could never have under a system of licences, permits, directives, centralised decisions and delays.

—And the Industry's Long-Term Development

Not the least important responsibility of the *Iron and Steel Board* will be to control development within the industry. It is upon the cost of capital development that the first report, published last month, of the *Iron and Steel Corporation*, the nationalised body, throws a particularly revealing light. In the next few years capital investment in the industry is expected to be of the order of £60 million a year. The corporation's report heavily underlines the fact that the volume of profits that the steel companies are likely to be able to retain will be insufficient to finance this development and at the same time to provide sufficient sums to cover the cost of maintenance and replacement of the industry's capacity.

In the period of 7½ months to the end of September, 1951, capital investment (which ran at a rate of £57 million a year) and the increase in working capital requirements (£7 million) were financed by ploughing back by the companies, by special receipts—such as compensation for colliery assets—by increases in the amounts set aside for future taxation, and by a reduction in cash resources. The corporation mobilised the industry's cash resources by acting in a sense as a loan agency, borrowing from or lending to the companies at the low rate of interest of 3 per cent.

The iron and steel industry still has sufficient resources—a year ago its liquid resources amounted to £45 million—to finance capital development from its own resources alone until the end of this year. But soon after that outside aid will have to be sought, it being estimated that funds retained within the industry from ploughed back profits, depreciation provisions and other sources will cover only about half the outgoings on capital account. About £30 million a year will therefore have to come from outside the industry.

If and when private investors buy back the industry they will have to bear in mind this continuing need for new money and the further implication of continuing low rates of dividends as profits are ploughed back. And presumably the Board will not have the power to switch the industry's liquid resources as readily as has been done by the Corporation.

Shorter Note

National Insurance—Wife in her Husband's Business

Since August 7, 1952, a wife engaged in business with her husband or employed by him in his business may be regarded for National Insurance purposes as a self-employed person, provided that she ordinarily puts in 24 hours or more each week in the business and that her earnings from it are 20s. a week or more. Previously only wives who were partners or similarly associated with their husbands in business and who satisfied the other conditions mentioned were entitled to be insured as self-employed persons.

ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL ESTABLISHED 1889

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The Valuation of Goodwill

APART FROM TWO OR THREE BOOKS on goodwill, the literature consists of single chapters or isolated references in the general text-books and scattered articles in the journals. The enterprise of the Incorporated Accountants' Research Committee, in bringing together in the space of thirty-nine pages of excellent type* all that it is really important to know about the valuation of goodwill, is therefore much to be commended.

The committee warns that its notes are neither authoritative nor exhaustive, but are rather expressions of opinion offered as lines of thought to the accountant when considering his problems. This purpose they serve admirably. But perhaps the committee has been too modest, for its booklet contains the distilled *expertise*, reading and experience of a number of skilled practising accountants who have addressed themselves over many months to this difficult and varied subject.

After an introductory note, the committee deals with the subject in three sections: the sale and purchase of a business, professional goodwill and the valuation of unquoted shares for probate.

The existence of many definitions of goodwill is acknowledged, and a further definition is offered:

> Goodwill consists of those elements in business relationships which make a continuance of such relationships probable notwithstanding a change in ownership of the business.

This definition should prove useful in circumstances where existing definitions do not apply. The assessment of those elements in any particular case should then be of some guidance to the accountant in valuing goodwill.

The value of goodwill depends upon the capacity of a business to earn profits in the future. Any estimate of it must generally be based upon the profit record of the business in the years immediately preceding the date of valuation. The considerations to be brought into account in adjusting past profits, so that they may form a basis upon which to assess the value of goodwill, must vary in each particular instance. But under thirteen headings the committee's notes indicate and comment upon all the more likely points which may have to be brought into account in any circumstances.

The familiar arithmetical methods, all of which are arbitrary and cannot pretend to any ultimate accuracy, by which the value of goodwill may be computed from adjusted past profits, are then given. They are: a number of years' purchase of super-profits; the sliding scale valuation of super-profits; the annuity valuation of super-profits; the capitalisation of future maintainable profits; the compromise of a mean between the value of tangible assets and the capitalised value of the yield; and a number of years' purchase of past net profits. An ingenious variant of the last method is suggested. A series of relevant questions (which are given in the notes) are weighted in accordance with their importance to give a maximum of 100 marks. The questions are then answered and the result expressed as a percentage, by which a further year's agreed net profit is adjusted and added to the nominal figure for goodwill arrived at by taking an agreed number of years' purchase. We shall watch with interest to see whether this method proves to be useful in everyday practice.

Examples are given of each method of valuation. For this comparison the figures used are those of a hypothetical manufacturing firm. While it may not be proper to take these particular examples as typical, and thus the comparison of methods should not be regarded as conclusive, it is significant that the resulting valuations of the goodwill element range from £10,000 to more than £34,000, according to the method employed. Given a range of anything like these dimensions, it is certainly not surprising that the valuation of goodwill on the sale of a business may well be arrived at as a consequence of bargaining between the parties concerned. Even so, however, upper and lower limits will be set by accountants, so that their assessment of the valuation remains important.

There are certain special factors involved in the goodwill of professional firms. Apart from the sale of the complete practice, a valuation may be called for on the death or retirement of a sole practitioner or of a partner, or when a new partner is introduced. The committee provides a separate section on this part of the subject. In particular, it discusses the special types of valuation methods used in professional practices: a most useful summary of procedures, which are principally variants of the method of computing goodwill by taking a number of years' purchase of gross fees. The section concludes with a note on the practical question of paying for goodwill—an issue of particular cogency to the young accountant or other professional man entering into a partnership today.

The concluding section of the notes considers the valuation of goodwill as affected by the valuation of unquoted shares for probate. Two principal questions arise. They are the valuation under the Finance Act, 1894, of minority holdings, and the valuation under the Finance Act, 1940, of holdings which give control, or have given control within five years of the date of death. This is a difficult part of the subject, and requires careful reading, but the booklet presents it clearly and in simple language.

* THE VALUATION OF GOODWILL. By The Incorporated Accountants' Research Committee. (*The Society of Incorporated Accountants. Price 2s. 6d. net.*)

Shareholders, Directors and Accountants

As a watcher on the sidelines of industry and finance, the necessarily anonymous contributor of the following article studies his subject from some unusual angles. His objectivity (or lack of it) is for each reader to assess individually. At least one of his shafts should provoke either an explosion or some serious thinking. But that is probably what he hopes for.—Editor, ACCOUNTANCY.

By A FINANCIAL JOURNALIST

THANK HEAVEN I'M A FINANCIAL JOURNALIST and don't have the make-up of shareholders, directors and accountants to bother me. I often wonder what makes these three tick—no pun intended. You get the doubt whether shareholders tick at all when you go along to a company meeting which promises to be stormy. I've written some pieces on public company reports that I've felt confident would send shareholders by the hundred to Winchester House or Incorporated Accountants' Hall or some other meeting place, eager for the fray. Time and again I've come away with the lost feeling of a voice in the wilderness.

So far as I know I have no allergies. Company directors and their suave charm leave me cold. They unbend all right but I sense a pseudo-spontaneity which prevents me from getting a glimpse of what makes them tick. Perhaps they suspect the Press, even though they feel a confidence born of the knowledge that they've made a success of their lives (I'll never be a company director!), and can contain their feelings until they get home. On the other hand, several I've met would not hesitate to call a sundry debtor a confounded nuisance at any time.

It's the company chairmen I know best of all, as I read hundreds of their speeches, year in, year out. In fact, if you know of any chairman who wants his speech written just write to me, c/o ACCOUNTANCY. The form is almost always the same—a recital of nearly all the information that is given in the accounts; a survey of the past year; a refusal to prognosticate without provisos that cancel out the value of the forecast altogether; a discussion, without dynamism, of what's going on in the factories; and, finally, that most useless of rituals, a hearty vote of thanks to the staff.

Yes, company chairmen can certainly permute their platitudes. It would, I feel sure, be refreshing for their shareholders if they were to stop going on parade whenever they go on paper. Their meaningless recital of the figures given in the accounts is a shibboleth from the days when company accounts conveyed practically nothing to shareholders or the experts. But I suppose you have to wrap up such facts as, for instance, that if the tax collector were to put on the pressure the company would be very hard put to satisfy him, or that sundry debtors are up in amount because the company's goods are stuck on customers' shelves.

I sometimes wonder how chairmen get on with their accountants. Accountants, I mean, those electronic brains that produce the answers for the Board, not merely the auditors who come in once a year. I suspect that there is a deal more respect for the high level cost accountant than there is for auditors. The latter work to rule, and, judging by what I have seen, are frequently indifferent to the end-product of their effort. Company accounts are often a disgrace to the firm, the accountants and the printer, and there are several explanations for this. If I were an accountant of a big public company I would insist, even at the expense of offending the auditors, that I had a say in the preparation of the accounts right up to the moment that the final drafts were passed to the printers. They would be the child of my proud creation, and no director would dare depart from my ideas of presentation, no printer would hesitate to co-operate in my experiments with type-faces and colour. I might even draw up a summary of the features of the accounts to be dealt with by the chairman in his speech, and would certainly "vet" the directors' report, another frequently useless appendage. But perhaps the Editor should tuck this article away for a decade or two, until I reach the age of discretion, and then get me to revise the proofs—or to rewrite it from start to finish!

It seems to me that most accountants aren't taking all the pride in their job that they should. To me it's like eating off newspaper to handle a bad set of accounts, and though I'll grant that the number of these is diminishing I still feel that the profession has a long way to go. It is not sufficient to draft the accounts and then let the Board make a Heath Robinson picnic of an exercise in logic.

By now you'll say I'm a bundle of allergies. I certainly react against "clever" Boards, because of the weakness of the opposing shareholders. My ideal shareholder would have the mental alertness of a Birkenhead, the delivery of an Olivier, and an encyclopædic knowledge of company law and accounts. He would sit at the back of the hall at a stormy meeting, or side-centre of the body of shareholders, and would make his name as much feared in the City as Frederick Ellis's. One day I may come across a shareholder with these qualities, but I doubt it. Usually the "vocal" shareholder lacks one at least of his senses and suffers from chronic nervous anxiety. He fails to realise that there is no reason why he should not follow the example of company chairmen and M.P.s and read his questions. Instead, the accounts flutter in his hands, and as he usually sits in the front row his mumblings are heard by most of the Board and by no one else.

Is he representative ? I think he must be. I'm not prepared to say that shareholders as a body are apathetic merely on the evidence of attendance at company meetings. Wild horses wouldn't drag *me*, as a shareholder, to a meeting if I felt that my oratory would bring me a job on a shareholders' committee! Perhaps it is this consideration which keeps the shareholders away.

I don't suppose that one shareholder in ten can make head or tail of the accounts, but perhaps I'm exaggerating my own small expertise. This irritates me when I can't see if the company is paying the same percentage dividend rate as the previous year, or what is the normal margin over the dividend. I like group accounts presented separately. In all, there is much in company accounts which galls me, and I still prefer the old-fashioned presentation, even though I've been satiated with the tabular layout.

Perhaps the accountants aren't to blame for these dislikes, though I suspect that often they are. The directors may contend that they have the final word in the layout of the accounts, and that the accountant is their servant. But he is also the servant of professional standards and of the shareholders. We need not enter into a discussion of whether or not shareholders are the proprietors of the business. The point is that the accounts are prepared for them, and should, therefore, be as lucid as possible. In very few instances has there been a proper appreciation of this. The ideal of the text-book author is to be crystal clear in his explanations, but that ideal does

not emerge from company accounts. How many auditors could certify: "We have prepared the above accounts as simply and clearly as possible, so that they can be understood by a financial simpleton, to the best of our knowledge and belief"?

If you are a company director you will say that *you* understand the accounts; if you are the accountants you will say that *you* compiled them in a clear manner; if you are Mr. John Bull, Ordinary shareholder, you will undoubtedly say you find them as dull as ditch-water and incomprehensible, and that you put them in the W.P.B. as soon as received. Accounts of public companies can be the accountants' best advertisement, and they can frequently tell a dramatic story. Come, then, ring up the curtain!

Merger of Debts

THE PROBLEMS OF FURTHER SECURITY

By W. H. D. WINDER, M.A., LL.M.

THE LEGAL DOCTRINE OF "MERGER" IS MET with in a number of connections. In relation to debts the simplest case of merger is where a simple contract debt is sued for and is merged in the judgment. More complicated and of greater practical importance is where a higher security, such as a deed creating a charge, given to secure a simple contract debt, may operate in law as a merger so as to leave the remedy solely under the higher security. Merger may take place where there is a debt for a specified amount due under a simple contract and in respect of which a bond is entered into between the same parties and no surety is brought in. In such a case it may be that the creditor gives time, but he obtains the advantage of getting a bond, or he may secure some other advantage, such as payment on a certain day with interest; the new arrangement is essentially in substitution for the simple contract debt. It would make nonsense of the transaction if, having entered into that arrangement, possibly giving time, the man could sue on the simple contract debt the next day.

But it is not always easy to say whether merger has or has not taken place and for this reason the decision of the Court of Appeal in the recent case of *Barclays Bank, Ltd.* v. *Beck* (1952, 1 Q.B. 47) is welcome. It makes clear some of the limits of the operation of the doctrine of merger. Before dealing with certain points which it was not necessary for the judgments in this case to notice, it is desirable to give shortly the facts of the case and the decision.

The plaintiff bank claimed some £583 as the amount showing in their books as the defendants' overdraft. An overdraft of some kind had existed for several years. When it stood at something like £4,000 the defendants executed in favour of the bank a fixed and floating charge on their farm under the provisions of Part II of the Agricultural Credits Act, 1928. This charge was expressed to cover moneys then due or thereafter to become due to the bank. On a subsequent sale of the farm by the defendants the bank agreed that the agricultural charge would be discharged and handed over on payment of the sum of £4,000 which the purchasers of the farm had agreed to pay. The bank had appointed a receiver to exercise their right under the charge and the £4,000 was, by agreement, paid to him. The £4,000 in the bank's books in the account of the defendants was debited with certain charges which the receiver had made, and also with expenses to which they had been put, and which the bank said they were entitled to deduct under the terms of the agricultural charge. That produced a sum of £3,700 odd. Those deductions, the difference between that sum and £4,000, added to the amount of the overdraft in excess of £4,000, made up the £583 which was claimed in the action. What was said by the defence was this: if you look at the agricultural charge you will find it a covenant to pay the overdraft. The right of the bank, therefore, to claim the overdraft on the ordinary relationship of banker and customer has been merged in the right under the covenant contained in this charge, and as a result of the agreement that deed and all liabilities under it, including the obligation to pay the overdraft, have been discharged *in toto*, and in those circumstances the bank has no claim. This argument was rejected by the Court, judgment being given for the bank. In the circumstances and in view of the intention of the parties it was held that the doctrine of merger did not operate. The following factors limit the operation of the doctrine.

(i) Co-extensive Security—Different Parties

It is clear from the case of *Boaler* v. *Mayor* (19 C.B.N.S., 76) that it is not an unqualified legal proposition that, whenever there is a security by deed, the simple contract debt is merged. Byles, J., said in that case:

> As to the question of merger, the rule is well established that, unless the two are strictly co-extensive, the simple contract debt is not merged in the specialty.

In that case the debtor had given a promissory note, with sureties, and later, having become further indebted, gave further security by deed. But the deed made no reference to the note, still less did it expressly reserve the rights under the note. The sureties who signed the note were not parties to the deed. It was held that the debt secured by the note did not merge in the deed. The Court stressed that the deed and the promissory note were between *different parties*, for different sums, involving different terms, and at different rates of interest. "If the specialty is not co-extensive with the simple contract debt, the two may co-exist," decared Erle, C.J.

(ii) Co-extensive Security—Different Liabilities

The amount of the debts must be co-extensive for merger to take place. Denning, L.J., laid stress on this requirement in giving judgment in the recent case, though the other members of the Court took the broader ground of the general intention of the parties. He said that in an ordinary case where a defendant owing an existing simple contract debt gives security for payment of it by means of a covenant under seal and a

charge on his property, then the simple contract debt is merged in the specialty unless there is an express provision to the contrary, but that a running account with a bank stands on a different footing. When security is given for payment of amounts due, or to become due, on a running account, the doctrine of merger, if it applies at all, would at the most apply only to the indebtedness which existed at the date when the covenant was taken and the charge given. The reason is, said Denning, L.J., that merger can apply only to existing debts. Future debts do not merge; they take their colour from the circumstances in which they arise. They are then either specialty debts or simple contract debts; and, as they start, so they go on. If they are created under and by virtue of a deed, then they are specialty debts from their commencement; but if they are created by a simple contract outside a deed, then they remain simple contract debts even though there is a deed in existence which gives collateral security for them.

The distinction is clearly shown by considering the difference between a mortgage debt to a building society and a charge to a bank to secure a running account. The mortgage debt to a building society is created under and by virtue of a deed, and is a specialty debt from its commencement; but a future debt on a running account is a debt created by parol, and it remains a simple contract debt, even though the customer has previously given a charge to secure it, which includes a covenant under seal. The future debt on running account is not created under the deed. It may be that it would never have been created but for the deed, but that is a different matter. It only means that the deed is collateral security for its repayment.

An illustration from the law reports is *Holmes* v. *Bell* (3 Man. & G., 213), a case not referred to in *Barclays Bank, Ltd.* v. *Beck*. A banker took from his customer and his surety a bond conditioned for the payment of all sums already advanced or thereafter to be advanced to the customer. This was held not to amount to a merger and the customer could be sued for the balance of his account as upon a debt by simple contract. Another illustration is *In re Bate, ex p. Rishton* (3 Deac., 358). Bankrupts gave a joint and several promissory note for £2,000 to secure advances made by their bankers. When they were indebted to the bankers to the extent of £1,957, one of the bankrupts mortgaged certain property to them to secure that sum, and all such further sums as might be advanced to the extent of £3,000, including the said sum of £1,957. At the time of the bankruptcy, the amount of the debt due to the bankers was £4,365, of which sum they realised the £3,000 under the mortgage. It was held that the mortgage deed did not operate as a merger of the promissory note, and that the bankers could prove on the note for the balance of their debt.

(iii) Contrary Intention Expressed

There is no doubt that the parties can exclude any possibility of merger by expressing an intention that it shall not take place. Such expression of intention may take the form of stating in so many words that the deed is intended to operate merely by way of further security for the debt. It is clearly wise to express this if the parties do have this intention in mind.

In *Twopenny* v. *Young* (3 B. & C., 208) B., being indebted to A., procured C. to join with him in giving a joint and several promissory note for the amount, and afterwards having become further indebted and being pressed by A. for further security, executed a deed. The deed recited the debt and that for part of it a note had been given by him (B.) and C. and that A. having demanded payment of the debt, B. had requested him to accept a further security. The deed then went on to assign to A. household goods by way of bill of sale as a further security. It was held that this bill of sale did not extinguish or suspend the remedy on the note, but that A. might, notwithstanding the deed, sue on the note at any time. It is to be observed that this was not a case of a creditor giving a principal debtor time to pay and thus, possibly, discharging a surety, for the deed did not purport to give time to pay. Bayley, J., said that:

> Where there is that in the instrument which shows that the parties intended the original security to remain in force the new one has not the effect of extinguishing it.

He added:

> Here, the language of the bill of sale shows that it was intended merely as a further security; that makes the effect of it the same as if an express proviso had been inserted, and prevents it from operating as an extinguishment of the remedy on the note, either as against . . . [C] . . . or the defendant [B].

(iv) Contrary Intention Implied

It seems clear from the judgments of Somervell, L.J., and Roxburgh, J., in the Court of Appeal in *Barclays Bank, Ltd.* v. *Beck* that merger does not take place if a contrary intention can be gathered from the documents which the parties have signed, even without any written reference to "further security," "collateral security," or the like.

A very learned judge, Maule, J., had said in *Price* v. *Moulton* (10 C.B., 561):

> Upon the authorities, and the general understanding of the profession, I think it is quite clear that a man cannot have a remedy by covenant and by assumpsit for the same debt; the two are wholly incompatible and cannot coexist. If the promise was made before the covenant, the latter must prevail. The intention of the parties has nothing to do with that.

This statement was, however, doubted by the Judicial Committee of the Privy Council in *Commissioners of Stamps* v. *Hope* (1891, A.C. 476). It was said that if *Price* v. *Moulton*:

> is to be understood as importing that a merger of a simple contract debt in a debt of a higher nature is effected by law, merely by the existence of an identical covenant, and notwithstanding the plain intention of the parties to the contrary, that is a proposition which their lordships would hesitate to accept.

And the Court of Appeal in the recent case did not accept it either. In fact ten years before *Price* v. *Moulton* the presiding judge of the then Court of Review in bankruptcy matters had declared that "merger and extinguishment are now considered as matter of intention" (*Re Dix, Ex p. Whitbread* (2 Mont. D. & De G., 415)).

Denning, L.J., in *Barclays Bank, Ltd.* v. *Beck*, thought it must be taken that the statement in *Price* v. *Moulton* was incorrect and he was clear that it did "not apply when the covenant is given by way of collateral security." Roxburgh, J., was explicit:

> In such a case as this, which relates to an instrument of charge, the question of merger or no merger is a question of intention as revealed by that instrument, and I also agree that the instrument here in question indicates that there was to be no merger.

Somervell, L.J., reached a similar conclusion after a very full and careful analysis of the transactions and documents. According to his analysis the relationship of banker and customer continued throughout. A charge was given and a clause in the charge set out that the borrower remained liable to pay whatever was due and owing to the bank according to the terms agreed between them apart from the charging document as and when it became due. On the other hand there was no reservation of rights declared, nor any allusion to the security being collateral. For this reason the decision of the Court of Appeal does seem to have carried further than the earlier decisions the policy of minimising the operation of the doctrine of merger.

Such a policy will, of course, find favour with creditors and those acting for them or advising them. Debtors will not be able to rely on a technical rule which probably had its origin in the old common law rules of pleading which have been long obsolete.

The Sixth International Congress on Accounting

The Technical Sessions—III*

THE INCIDENCE OF TAXATION

THE CONCLUDING TECHNICAL SESSION OCCUPIED BOTH MORNING and afternoon of Friday, June 20. Seven papers were presented on *The Incidence of Taxation.*

G. B. Burr (*Association of Certified and Corporate Accountants, Great Britain*), after quoting Adam Smith's canons of taxation, said State revenue was required essentially for the Armed Forces, police and law courts, and essential public health services. In recent years taxation had been used for other purposes: to establish a supply-and-demand equilibrium (e.g., purchase tax to discourage spending); to adjust import-export totals; to redistribute incomes; and for the provision of services of which some (e.g., national health) were partly financed from other sources, and others (e.g., motor vehicle taxation, originally for maintenance of the roads) yielded a surplus to the general revenue account.

For the purpose of his paper Mr. Burr defined taxes as "compulsory payments to the State which are not exactly, or almost exactly, balanced by the value of the services received."

Total national taxation in 1952-53 amounted to £4,661 million, compared with £873 million in 1937-38: a burden five times as great as before the war. Direct and indirect taxes then contributed approximately equal amounts; but the proportion had changed to three-fifths direct and two-fifths indirect.

The national income before tax was £11,970 million. Direct taxation was paid by about 15 million persons, and their average payment was nearly £300 each.

A substantial amount of "hidden taxation" was exacted by such measures as the semi-nationalisation of land with inadequate and delayed compensation, and by the patent inequality of two different bases for valuation of the same property, for example, at a relatively low figure when requisitioned for Government purposes, and at full post-war scarcity value for estate duty.

The United Kingdom had two important taxes on capital —estate duty on the death of individuals, at rates rising to 80 per cent., and stamp duties on every conveyance of land, investments, etc., and on the authorised capital of companies. It had so far been thought that a general tax on capital would be unfair, unwieldy, unproductive and costly.

Mr. Burr gave a short account of the income tax, which, he said, not only overshadowed any other tax for its yield, but also was most far-reaching in its economic effects. The brunt of the taxation of profits was borne by companies, as profits tax and excess profits levy were charged on them and not on individuals.

In the concluding section of his paper Mr. Burr gave a critical review of British taxes. Of Adam Smith's principles: *Equality of sacrifice* had been largely attained, but at the cost of extreme complication. There was no convincing reason for the profits tax, charged upon corporate bodies only. *Certainty* was entirely absent owing to the extreme complexity of the laws. *Convenience:* The tax machine was efficient, involving very little friction with taxpayers and their agents, and tribute was due to the integrity of the Inspector of Taxes and their staffs. *Economy:* The cost was very low in proportion to the tax collected.

The disadvantages of the system included the levying of three or four taxes on the same income; the outstanding disincentive of taxation ranging up to 97½ per cent; waste and disregard of expenses; payment in taxation of money required for essential capital; loss of the spirit of enterprise and adventure; and the narrow and absurd definitions employed in purchase tax.

Mr. Burr concluded with a number of questions which might lead to constructive suggestions, covering the possibility of reductions in rates of tax; realisation of their effect on the standard of living; replacement or historical costs; replacement of profits tax by a straight tax on income of companies.

Any alterations must come from the will of the nation. We could not have public expenditure and benefits at the existing rates *and* reduced taxation.

Thomas J. Green (*American Institute of Accountants*) dealt with the incidence of taxation in the United States. He spoke of the huge and ever-increasing amounts of taxes required by modern governments, partly as a result of military necessity, but also for "paternalistic objectives" and because of increased economic and social services expected by the citizenry.

The ultimate incidence of all taxes devolved on the individual, although it was not always easy, in the multiple maze of United States taxes, to see how the onus was passed on to him. If taxpayers realised their burden, they would take a more active interest in government and its spending.

The United States had two taxing systems, (1) Federal or national and (2) State and local. It was not until 1913 that Congress was given power under the Constitution to levy taxes on the incomes from all sources of individuals. The mainstay of the Federal system now was the income and excess profits taxes, supplemented by estate taxes, gift taxes, alcohol and tobacco taxes, manufacturers' and retailers' excise taxes, social security taxes, etc. The customs duty, which once virtually carried the cost of the Government, was now relatively unimportant as a source of revenue.

The states relied on corporation and personal income taxes, with payroll, general sales, liquor, tobacco, gasolene, motor vehicle, inheritance, and property taxes. Cities, towns and counties levied property taxes, supplemented by sales taxes, licence fees, etc.

Until 1938 each Revenue Act was complete in itself, superseding earlier Acts; but the Internal Revenue Code codified the law at the beginning of 1939, and later statutes had merely amended the Code. The high tax level of recent years had caused complexity in attempts to plug loopholes and to avoid inequities. Regulations were promulgated by the Commissioner of Internal Revenue. Administrative rulings on the interpretation of the law were published regularly in the *Internal Revenue Bulletin*, and the Bureau of Internal Revenue might also issue to taxpayers and their

* The papers at the first two sessions, on *Fluctuating Price Levels in Relation to Accounts* and *Accounting Requirements for Issues of Capital*, were summarised in our July issue (pages 230-4). Summaries of the papers at the third and fourth sessions on *The Accountant in Industry* and *The Accountant in Practice and in Public Service* were given in our August issue (pages 264-71). The summaries now given of the papers at the fifth session of the Congress complete our report of the technical sessions.

representatives, upon request, rulings on tax liabilities arising from prospective transactions.

Mr. Green explained the legal definitions of income and allowable deductions, and how these differed from economic and accounting concepts. He then proceeded to a general outline of present-day taxation in the United States. It was estimated that for 1952 taxes to municipalities and counties would amount to $9·5 billion, to the states $10·5 billion, and to the Federal Government $63·7 billion. Income taxes levied on individuals accounted for about 41 per cent. of Federal revenue. The rates of tax increased progressively up to 92 per cent., but there was a "ceiling" of 88 per cent. of total net income. A further 41 per cent. of Federal revenue was derived from income taxes on corporations, which paid normal tax of 30 per cent., with a further 22 per cent. on taxable income over $25,000, and excess profits tax of 30 per cent. on net income after special deductions. Excess profits tax could not exceed 18 per cent. of excess profits tax net income. Net capital gains were taxed at 26 per cent. unless it would be more advantageous to the taxpayer to include them in income subject to normal tax and sur-tax.

An illustration of Federal estate tax showed that a gross estate of $10,000,000 would pay $1,754,900 if the property passed to the spouse, or $4,519,000 otherwise.

Unique or unusual features of the Federal income tax laws included "income splitting," whereby husband and wife—or in some cases an unmarried taxpayer with a dependent relative—could pay the same tax as two individuals each receiving half the joint income; taxation of capital gains on sale or exchange of assets; allowances for depletion of oil, gas and mineral properties; double taxation of dividends, as income of the corporation and again in the hands of the shareholder; penalty sur-tax on earnings accumulated by corporations to avoid the sur-tax on shareholders; and personal holding company sur-tax, or undistributed income of corporations controlled by not more than five persons.

The total tax burden rose from less than 20 per cent. of the national income before World War II to 34 per cent. this year. Federal taxation accounted for about 80 per cent. of the present burden. In addition there had been large increases in Government debt.

Until 1933 the role of taxation was to raise revenue, but the administration which then took office used it also to initiate social reforms. Mr. Green saw no objection to this, but regretted that taxation had also become a levelling device for redistributing wealth, thus sowing the seeds of destruction of the private enterprise system and of the American middle class.

R. D. Brown (*New Zealand Society of Accountants*) observed that the high level of taxation which was grimly necessary in wartime had since been maintained because of costly and crippling controls and the welfare state.

A special Taxation Committee had recently made recommendations which were under consideration by the New Zealand Government. It recommended the abolition of land tax, which was now an indefensible tax on a particular class not enjoying special privileges.

Mr. Brown considered the aggregation of incomes of husband and wife grossly unfair. He advocated that in the assessment of income from farming—New Zealand's most important industry—livestock should be recognised as capital, as in the United Kingdom and Canada. Taxation on shareholders had been unjustly increased by a measure passed in 1942.

Conrad F. Horley (*The Association of Accountants of Australia*) recalled that the Australian Federal income tax was not introduced till 1915, and then as a temporary measure. Direct taxes on income collected in 1948-49 amounted to £272 million out of total Federal revenue of £491 million, or £62 18s. 8d. per head of the population. State and local taxation in New South Wales totalled £2·6 million, or £8 3s. 7d. per head. The lower-paid groups were much less severely taxed than in the United Kingdom.

Non-resident individuals and companies were so heavily taxed as to discourage the investment of overseas funds in Australian ventures.

Wages were fixed by the Australian Arbitration Court, and any increase awarded was practically a universal rise. Mr. Horley considered that the workers were worse off when wages were increased, as prices were necessarily raised in proportion and at the same time they suffered heavier deductions for tax.

The double taxation agreement with the United Kingdom worked satisfactorily in some respects, but had serious complexities and anomalies.

G. P. Kapadia (*The Institute of Chartered Accountants of India*) considered that it was the duty of citizens to see that private enterprise was carried on in the public interest, but that taxation policy should not strike at the foundation of private enterprise. The tax structure of any country was influenced by world conditions. A country which launched upon industrialisation must have a borrowing programme and pass a fair proportion of the burden to future generations.

Evasion would always result when the rate of tax passed the limit which could be borne by the taxpayer. Evasion of income tax often led to loss of revenue from other taxes, as from the sales tax in India. An Investigation Commission had been set up in India to inquire into cases of suspected evasion. It was the obligation of citizens to make their proper contribution, but a moderate increase in tax might produce more revenue than one which was so heavy as to provoke resistance. Tax systems should also be considered with a view to incentives to enterprise, work and savings.

Total revenue had increased from Rs.122 crores in 1935-36 to Rs.347 crores in 1950-51. Revenue from customs and excise showed an increase of about 300 per cent. and that from taxes on income of 700 per cent.—the result of the expansion of the economy, political emancipation and rapid industrialisation.

In the Soviet economy there was concentration of power and compulsory regulation of activities, and direct taxation was therefore not needed for levelling up incomes or material possessions. The highest sur-tax rate in Russia was reported to be about 13 per cent.

While legislation might change the social or economic structure of a country, the latter might influence the political system. The Soviet economy had had apparent success in recent years, but the democracies and their financial structures had stood the test of time for centuries.

Thomas Kjeldsberg (*Norges Statsautoriserte Revisorers Forening, Norway*) said that capital and income taxes in Norway were assessed on the principle of declaration by the taxpayer. Traders must send in copies of trading and profit and loss accounts and balance sheets. The taxes were paid to the Government and to municipalities, and assessment was carried out through elected municipal bodies. Trading incomes were normally assessed on the average of the three preceding years. Companies paid capital and income tax, and shareholders were taxed in addition, while undistributed profits were subject to a special "funds tax."

Taxation had been aimed at levelling personal incomes, and that had undoubtedly been achieved. There was a proposal to give tax relief on enterprises in Northern Norway in order to encourage needed development there, but it was doubtful whether this was possible under the constitution. Taxation had reached a level which reduced the incentive for personal saving.

Uno Lönnqvist (*K.H.T.-Thadistys: Föreningen C.G.R., Finland*) explained that in Finland income taxes were payable both to the State and to the cities and communes. Of total taxes 65 per cent. were indirect and 35 per cent. direct—more than half the indirect taxes being derived from purchase tax. Personal income tax and

property tax were permanent: they had been supplemented during and since the war by excess profits duty, additional property taxes and property transfer taxes.

Companies were taxed, and shareholders had in addition to pay tax on dividends.

Finland had been hard hit by inflation. The taxation values of fixed assets had been gradually increased by the Minister of Finance, but not to market value. More freedom was allowed with current assets. Losses could not be carried forward.

The auditor's duties were increased by high taxation: there was a temptation to show as small a profit as possible.

The Ministry of Finance had a special tax-controlling department and accountants were not required to carry out computations, but they examined the declarations to see that there were no mistakes which would result in over-payments.

SUMMARY BY THE RAPPORTEUR

The *rapporteur*, **Percival F. Brundage** (*American Institute of Accountants*) reported as follows:

Incidence is defined as the falling of a tax upon a person as a burden which he is unable to shift to another. It was obviously impossible for those who prepared the papers to discuss the ultimate incidence of all of the complex taxes levied in each of the countries they represent. A large part of the total tax burden is levied on corporations in the first instance but must ultimately fall on individuals as Mr. Green points out.

Most of the authors accept the view that redistribution of wealth and income is a conscious purpose of taxation in their respective countries which means that the heaviest tax burden is borne by the possessors of the larger amounts of income. They point out, however, that the effects of taxation are felt by everyone, even the recipients of special benefits and subsidies.

In studying these interesting papers I was impressed with the similarity of the comments in spite of the many differences in the taxes imposed in the seven countries represented. There seems to be a consensus that in all countries taxes are too numerous, too complex and too burdensome. Excessively high rates are stifling business growth, deadening incentive, discouraging savings and encouraging extravagance in deductible expenditures. Tax evasion is growing. Tax avoidance is universal. The tax aspects of a transaction have become the most important factor in influencing business decisions.

Efforts to increase the material well-being of the lower income groups have resulted in a diversion of effort from production and have impaired the moral standards of the rich and poor alike, threatening also their future well-being. This seems to be the prevailing note in the papers we are discussing this morning.

Several of the authors go back to Adam Smith's principles of taxation:

Assessment according to ability to pay
Certainty of determination
Convenience of payment
Economy of operations

When tested by these rules many of our modern tax systems are found to be wanting.

I was somewhat surprised to find no mention made in any of the papers of Maynard Keynes or of the Neo-Keynsian School which has had so great an influence in the U.S.A. during recent years.

In the short time allotted to me to open the discussion I can only comment very briefly on one or two points in each paper.

Mr. G. B. Burr calls to our attention the increase in the government's needs for funds giving rise to taxation since medieval times when they were primarily for:

(1) Armed forces for the protection of the realm,
(2) Police force and law courts,
(3) Essential public health services, according to the medical knowledge of the day.

The cost of administration in those days was unimportant and such services as the post and water supply were self-supporting.

In recent years taxation has been employed for the purpose of:

(1) Artificial controls of supply and demand,
(2) Control of imports and encouragement of exports,
(3) Redistribution of incomes,
(4) Levies on special services for the benefit of others.

The present burden of taxation in the United Kingdom is five times that before the war although it was considered high enough at that time. Mr. Burr mentions several kinds of hidden taxation such as semi-nationalisation of land under the Town and Country Planning Act of 1947, which took away all building or development right from landowners for wholly inadequate compensation. He points out that while the British system is administered at a very low cost in proportion to the tax collected, the burdens upon the citizens and businesses is very heavy because of the tremendous amount of time required in computing the correct liability for the various taxes which he says is " a monumental waste of economic effort which the country can ill afford at the present time." This I think would be even more true in the United States where the tax departments of large corporations cost hundreds of thousands of dollars a year.

Mr. Burr closes his paper with some very interesting questions which I hope will be covered in our discussion period. Improvement in the standard of life of the nation and in the operation of the taxes he says may in the future result from the following:

(*a*) Substantial economies in Government expenditure of various kinds,
(*b*) Reduction in rearmament expenditure as soon as possible,
(*c*) A gradual extinction of food subsidies by compensating real income benefits through increased production and lower prices,
(*d*) The possible transference of a State-maintained health service to one more nearly approaching a true and actuarilly self-supporting insurance scheme, perhaps of a voluntary nature.

Both Mr. Horley and Mr. R. D. Brown point out the inflationary effects of high taxation in Australia and New Zealand. This has not been sufficiently stressed in the United States, where it is hailed as anti-inflationary. All of the moneys collected by taxation, and more too in several countries, is spent by the governments, so there is no lessening of money in circulation, while the tendency of the individual " towards recklessness in expenditure of a deductible nature " is very noticeable.

Mr. Horley refers to an interesting anomaly in the convention for relief from double taxation between United Kingdom and Australia. Persons who are resident in both countries are not deemed to be resident in either country. In general, however, considerable progress has been made towards the avoidance of international double taxation through treaties which have been approved since the last International Congress on Accounting.

Mr. R. D. Brown calls attention to the aggregation of incomes of husband and wife where each exceed £200 and taxation as one at higher rates. This is the direct opposite of the income-splitting provision in the United States under which the incomes of husband and wife can be added together, divided by two, and the tax computed separately on each half.

Mr. Kapadia gives an interesting illustration of the decreased total yield in India as taxes become excessive. In order to evade the heavy income tax no record may be made of some of the purchases and sales which are transacted in cash. The result is that in addition to the loss of income tax—the sales tax also is lost. Cash transactions have unfortunately been utilised for this purpose in other countries as well.

Mr. Kapadia regrets that in formulating tax policies more attention is not paid to preservation of incentives for expansion of industry and the launching of new enterprises.

Mr. Kjeldsberg gives us an interesting account of the authority of municipal councils in Norway to impose taxes payable locally. The principle of municipal integrity in economic matters is

followed in income and other taxes. Assessment and computation are carried out through elected municipal bodies. He refers to a recent step contemplated, namely, special tax relief for part of the country, northern Norway, which for reasons of nature is less developed than the rest of the country. A constitutional question has been raised against this special relief. In the United States we seem to have no compunction whatsoever in taxing corporations and citizens of the wealthier states to give relief to the farm areas and inaugurate federal projects like flood control and production of power.

Mr. Lönnqvist brings out the difficulties that the accountant encounters in Finland when high taxes are imposed because of the temptation of fraud. He traces the influence of inflation on taxation, how the tax increases automatically under the progressive scale of rates and accelerates the inflationary spiral. He hopes that the enormous amount of time now spent on tax calculations, tax control and litigation may be used in the future for more useful purposes.

Mr. Green summarises what he aptly calls the " multiple maze of United States taxes." With us the federal tax laws have taken the centre of the scene away from the State and municipal levies both in yield and complexity. Income taxes levied directly against individuals now account for approximately 41 per cent. of the entire federal revenue. Mr. Green covers certain unique features of United States income tax laws, the income-splitting for husband and wife to which I have already referred, the complex provisions for taxation of capital gains and losses, the special benefits of percentage depletion for oil, gas and mineral properties, the double taxation of dividends through corporate taxation and individual taxes to the recipient of the dividends, and the complex personal holding company provisions. He refers to the proposed constitutional amendment limiting Federal taxes to 25 per cent., a resolution in favour of which has been passed by a number of State legislatures. He feels that welfare benefits to the unemployed, the handicapped and the aged will undoubtedly continue, but as Sir Stafford Cripps pointed out in the quotation given by Mr. Burr, the yield from taxation of the higher incomes has reached its limit and the burdens are now falling on all of the citizens.

Excess Profits Levy—III*

GROUPS OF COMPANIES

IN ORDER THAT THERE MAY BE A GROUP OF companies, the following conditions must have been fulfilled on January 1, 1952:

(*a*) the companies in question were ordinarily resident in the United Kingdom (U.K.);

(*b*) one of the companies was not a subsidiary of any other company ordinarily resident in the U.K.;

(*c*) the other companies were subsidiaries of that one company; and

(*d*) no other company ordinarily resident in the U.K. was its subsidiary.

A company is deemed to be a subsidiary of another company if the latter owns at least 75 per cent. of the former's ordinary share capital (O.S. capital), either directly or through other companies, or partly one way and partly the other.

The fraction of the capital of another company held by the principal member through an intermediary company is found by multiplying the fraction of capital held by the principal company in the intermediary by the fraction of capital held by the intermediary in the other company. Where there are direct and indirect holdings, the results are added together.

Illustration: A company owns 90 per cent. of the ordinary share capital (O.S. capital) of B company and 10 per cent. of the O.S. capital of C company; B company owns 80 per cent. of the O.S. capital of C company:

A's holding in C becomes:	*Per cent.*
Direct	10
Through B, 90 per cent. of 80 per cent .. .. .. =	72
	82

So B company and C company are both subsidiaries of A company.

There may be several indirect holdings to be aggregated, where there are complicated series of interlocked companies.

In some cases, the result of the calculation will be that a company is a subsidiary of an intermediate company but not of the principal company appropriate to the intermediary.

Illustration:	*Per cent.*
A Co. owns of the O.S. capital of B Co. ..	90
A Co. " " " " " " C Co. ..	10
B Co. " " " " " " C Co. ..	80
C Co. " " " " " " D Co. ..	80
A Co. therefore owns in C Co. directly ..	10
and indirectly 90 per cent. of 80 per cent.	72
	82

A Co. owns in D Co. through B Co. and C Co. 90 per cent. of 80 per cent. of 80 per cent. =	57·6
and through C Co. 10 per cent. of 80 per cent. =	8
(Being 82 per cent. of 80 per cent.)	65·6
B Co. owns in C Co.	80
and in D Co.	80

A, B and C, therefore, form a group; but B, C and D do not, because B is a subsidiary of A (see qualification (*b*) above). This might create hardship, so it is provided that if that position existed on January 1, 1952, A and B can jointly elect that B, C and D shall form a group, and not A, B and C.

If a company is a subsidiary of two or more companies, none of which is a subsidiary of another company, the C.I.R. determine with which company it is to be grouped.

Any company incorporated after January 1, 1952, which, when its business commences, is a subsidiary of any member of the group, is to be deemed to be a member of the group (irrespective, it seems, of the principal member's shareholding in the new company) unless at the date the business commences " the nexus

* Previous articles appeared in our issues for July, pages 236-7, and August, pages 273-5.

has been severed" between the principal company and the members of the group of which the new company is a subsidiary. (A "nexus" is a link or connection.)

Where, after January 1, 1952, a member of a group ceases to be ordinarily resident in the U.K. or is dissolved, the nexus is regarded as severed between that company and all other members of the group. Similarly, where, after the said date or the later commencement of its business, any member of the group ceases to be a subsidiary of the principal member, the nexus is severed between that member and the rest of the group.

There is a proviso, however, that the nexus is not severed between two members of a group both ordinarily resident in the U.K. so long as they are under common control.

The effect of the severance of the nexus between the principal member and the other members is:

(*a*) if the other members are subsidiaries of another member of the group, that other member becomes the principal company;

(*b*) if there is another company which has not previously carried on business, of which the other members of the group are subsidiaries, but which has no other subsidiaries, it becomes the principal member of the group;

(*c*) in any other case, the C.I.R. decide which member is to be deemed to be the principal member.

A group can only be formed after 1951 if none or only one of the companies has carried on a business within the scope of E.P.L. before the formation of the group and none or only one of the companies was incorporated before January 1, 1952.

Group Standard Profits

The group standard profits are found by aggregating the standard profits of the members of the group, having regard to the member of the group which was the first to commence business.

If the earliest date of commencement was on or before January 1, 1947, the standard profits will be based on the standard years; any companies joining the group later will affect the adjustments for capital introduced, etc. Special rules apply where the earliest business started after January 1, 1947.

Illustration: All members of the group carried on business on January 1, 1947.

Company	1947	*Profits* 1948	1949
	£	£	£
A ..	26,000	28,000	32,000
B ..	11,000	3,000 (loss)	1,000
C ..	14,000	15,000	19,000
D ..	3,500 (loss)	2,000 (loss)	1,500 (loss)
	£47,500	£38,000	£50,500

The best two years, 1947 and 1949, give a standard profit of $\frac{£47{,}500+£50{,}500}{2}=£49{,}000$.

The share of each member in the group standard profit is found by taking the proportion of that profit that its profits for the standard years bears to the profits of all members of the group which had profits for the standard years; for this purpose losses are ignored.

			£
A	58,000/103,000ths	of £49,000 =	27,592
B	12,000/103,000ths	Do. =	5,709
C	33,000/103,000ths	Do. =	15,699
D	nil/ —		
	103,000		£49,000

Adjustments for alterations in capital, undistributed profits, over-distribution of profits, and borrowed money would follow.

Late Tax Appeals

By D. E. BOSTOCK-SMITH, A.C.A.

No doubt there will always be people who, for no apparent reason, fail to appeal against assessments far beyond the true figure of their profits. It is most difficult for practitioners to rescue such people from the consequences of their own neglect. Since the "under a hundred a year" farmers were drawn into the Schedule D net, provincial accountants have received a steady stream of bewildered applicants for remission of taxes against which appeals have not been lodged at the proper time.

Under Section 136 (3) of the Income Tax Act, 1918, the General Commissioners may grant an extension of the time limit of twenty-one days, providing that an appeal was *prevented* by absence, sickness or other reasonable cause. It seems that the Commissioners are entitled to refuse to reopen the case even if it is conclusively shown that the applicant was prevented from lodging an appeal in due time, but it is hard to imagine such an occasion arising. In fact this wording can be turned to advantage, as it gives the accountant an opportunity to dwell on the hardship which would result from the dismissal of the appeal. This plea frequently overshadows any weakness in the main argument.

Nevertheless, it is unwise to rely on this red herring. Evidence should be given showing that the appeal was in fact prevented by some "reasonable cause," and this is a task in which many taxpayers give no help whatsoever to their advisers. They are frequently so perplexed by the situation that they have no idea of the sequence of events which led them into their present parlous state.

"State of mind" is the potent factor in many cases; but one can scarcely expect the Commissioners to listen to evidence by a panel of psychiatrists. Is it possible for the accountant to deal with this situation? It is certainly worth trying, for there is nothing to suggest that "prevention" is limited to a purely physical state.

Consider a simple but extreme case, before applying the principle to taxation. It is your intention, on your way home from the office, to buy yourself a new tie. With your mind intent on the line of argument to be adduced at the meeting of the Commissioners the following day, you forget your intention. Quite clearly circumstances have *prevented* you from making your purchase.

In this simple form an appeal would be difficult to substantiate. But the sequence of events in the case of a taxpayer often provides a solid basis for an appeal.

This is particularly so in the case of a farmer. Assume that the farmer in question has not hitherto been concerned with income tax, being under Schedule B and having sufficient personal allowances to escape taxation. The jargon and general application of tax terminology are a closed book to him. The word "assessment" has for him only the vaguest of meanings. It is a mistake to assume that a farmer has any reason whatsoever for picking up even the most elementary information about income tax. It is most important to recognise this handicap which affects farmers, and many other taxpayers, when they first receive their notices of assessment.

The document itself is strange to him. He requires considerable time to extract any meaning at all from it, being unaccustomed to the terms employed. The first reaction of many people is to treat it as a kind of levy. From time to time the farmer

has had all sorts of arbitrary estimates served on him, against which appeal is useless. When an official tells him that croft land is worth a subsidy of so much an acre for ploughing up, the farmer has to assume that the official has his own means of arriving at his figures; land tax rarely invites appeal; a bill received from the accountant for fees is assumed to be properly drawn up, and in any case the farmer would find it hard to produce evidence to have the bill reduced. All these things indicate his approach to the notice of assessment, and he is predisposed towards assuming that it is a more or less unalterable sum.

It is all very well to invite him to appeal against the assessment, but how is he to know the precise rules for determining the correct figure, let alone arrive at it within twenty-one days—days full of their own problems? If he doesn't know the basis of the figure how can he appeal against it? The person who issued the assessment and demand note may be assumed, the farmer imagines, to know his own job far better than the farmer—probably there is a scale applicable to various types of farms, and his farm happens to fall within the scope of this particular assessment.

Furthermore, he has heard of assessments being increased on appeal. Since his affairs are in such a bad way, he cannot afford to run the risk of a further examination leading to a higher basis of assessment.

In the end he deals with it as the ordinary man deals with all his bills: he tries his best to pay it. But when it becomes impossible, he goes to the Collector and seeks relief. Many manage to pay the tax demanded, and in some ways they are the least fortunate as they miss the opportunity to appeal.

It is submitted that this train of events and the general circumstances of the farmer's life effectively prevent many from appealing. The circumstances will vary in each case, and matters peculiar to the individual which may have some bearing on the appeal should receive special attention.

And there is always one important factor to remember: that the General Commissioners are only too anxious to listen to arguments which will give them good grounds for eliminating hardship.

The Royal Commission

Evidence during the end of June and in July was given by Mr. R. F. Harrod, of Christ Church, Oxford; Mr. P. J. D. Wiles, of New College, Oxford; Mr. T. Balogh, of Balliol College, Oxford; the Association of Certified and Corporate Accountants (represented by Mr. Leo Kennett and Mr. J. E. Harris); the Fabian Society (represented by Mr. Austen Albu, M.P., and Mr. Roy Jenkins, M.P.); Sir Henry Clay; the Institute of Chartered Accountants in England and Wales (represented by Mr. T. B. Robson, Sir Harold Howitt and Mr. W. H. Lawson); the General Council of British Shipping (represented by the Rt. Hon. Viscount Runciman, Mr. C. W. Aston and Mr. A. F. Hull); the Association of British Chambers of Commerce (represented by Mr. Frank Bower and Mr. W. J. Laxton); the Society of Incorporated Accountants and Auditors (represented by Mr. Bertram Nelson and Mr. James S. Heaton); Mr. Geoffrey Crowther and Mr. Roland Bird (editor and deputy editor of the *Economist*); and the Federation of British Industries (represented by Mr. S. P. Chambers, Mr. C. D. Hellyar and Mr. A. G. Davies).

Mr. Harrod's idea was to apply to wages up to £1,000 a year. The employer would establish with the Revenue the employee's basic rate by his trade; the Revenue would assess the employee by reference to his family status and to that basic rate, the tax being deducted at source. Excess earnings would be tax free unless brought about by promotion, or by changes in basic rates of pay or in national rates of tax. He regards profits tax as inequitable and inexpedient, and a capital gains tax as impracticable.

Mr. Wiles advocated " replacement cost " calculations for taxation. His suggestion of two sets of books where " historical " accounting continued raises visions of difficulties! In mining concerns, he suggested adjustments—up or down—when the site was sold, not before.

Mr. Balogh dealt with reduction in number of taxpayers or less steep increases in rates. Repayments under P.A.Y.E. should be at appropriate dates. Earned income relief should be extended but unearned income taxed more heavily after say £2,000. He favoured a capital gains tax with relief for capital losses only against such gains, but a carry-forward of unrelieved losses. Trustees should have a statutory right to invest in certain equities.

We have already summarised the **Association of Certified Accountants'** memorandum (Accountancy, May, pages 165-6). Their main aim was that accounts should be prepared in the same way for all purposes. All expenditure must eventually be recovered from the business operations: revenue expenditure in the year it was made, capital expenditure over a set number of years. The Association's idea was to adjust for replacement cost of assets by reference to a relative price index arrived at by an impartial authority. They had not considered specifically a separate corporation tax, but regarded it as essential that true profits should be free after allowing for replacement to maintain productive capacity. Proprietors ought to be in a position comparable to pre-war, to encourage capital investment. Their memorandum showed that there was a reduction in the real return to shareholders in money value, and that stocks had not increased in real values. Provision for fixed assets was more important than that for stock losses, as stock was turned over more quickly, though the last two years had seen more difficulties in the latter. A base stock method of valuation would be supported.

The **Fabian Society** deprecated profits tax on non-participating preference dividends, but did not agree that heavy taxation was depleting industrial capital. It recommended depreciation and other concessions for small companies which financed

permanent capital out of profits. The Society favoured the continuance of initial allowances, and a tax on capital gains, differentiating between long- and short-term gains, the latter being regarded as ordinary income, the former assessed at a lower basis rate decreasing as the years the asset had been held increased. Tax on capital gains on death should be assessed before estate duty. It seemed desirable to levy a capital gains tax on the change in everyone's net asset position each year ! It was better to prevent an undue appreciation of ordinary shares than to tax the appreciation. The equity of taxing capital gains was more important than the yield of the tax.

Sir Henry Clay thought there would be some advantages in giving incentive to accumulation of profits as additional capital. The renewals basis was advantageous for plant and stocks. Industry as a whole was short of funds; reserves seemed inadequate to permit growth of industries, a fact endorsed by the resort to the market by firms showing large profits with relatively small dividends. His order of preference was: (1) abolition of profits tax; (2) replacement provisions; (3) revision of rate of tax.

The representatives of the **Institute of Chartered Accountants in England and Wales,** whose memorandum we summarised in our May issue (page 165), took the view that while the present generation of high executives continued to work hard despite the tax disincentive, the effect on the rising generation was feared. They did not object to a rate of tax for distributed profits differing from that on retained profits, but the former should be the current rate borne by everyone. One tax on company profits would be preferable to three. The question of accepting commercial accounts for taxation without statutory rules, and problems arising from rising price levels, were discussed. Mr. Lawson suggested that the ideal of taxing foreign profits on the remittances basis would not induce companies to leave profits overseas if a test of "reasonableness" was introduced.

The **General Council of British Shipping** were mainly interested in the replacement problem; the proportion of world tonnage owned by the United Kingdom had decreased in the last fifty years. Some companies—particularly tramp companies—had used up all their reserves and had not been able to maintain the tonnage they had in 1939. A liner company which ran out of cash would have to borrow for building.

Mr. Frank Bower (who, with Mr. W. J. Laxton, represented the **Association of British Chambers of Commerce**) requested permission at the session held on July 25 to amend the views given in January, 1952, as to depreciation costs. The Association now preferred that a general price index, rather than one of replacement costs, should be used. A general price index would be the same for all, easy to determine, and certain. It would provide for inflation as distinct from market fluctuations. The price index would be applied to "historical cost" depreciation of fixed assets, and to the value of stock as it was consumed or sold. The Association might prepare a fuller note on the point. A discussion ensued as to the effect on accounting practice, price fixing, etc. Mr. Bower said that it was a bad thing that money needed to sustain a business should be depleted by tax policy, forcing the business to borrow; business capital ought to be renewed out of surplus.

The Association regarded the social consequences of inflation as more serious than the question of tax; profits shown on the conventional basis misled and caused wrong judgments. Overstatement of profits could lead to over-trading, to the distribution of capital as income, and to increased wage demands.

The Society of Incorporated Accountants was represented at the same day's hearing by Mr. Bertram Nelson (Vice-President) and Mr. James S. Heaton. The Society's memorandum was circulated with our April issue.

The Chairman referred to the suggestion in the memorandum that sur-tax should not be levied on business profits until they were withdrawn from the business. Mr. Nelson agreed that such a provision would need to be carefully drafted, as it would tend to be a special concession enabling the self-employed person in business to accumulate capital without being taxed on it. The purpose was to encourage savings in a business.

In reply to further comments by the chairman, Mr. Nelson agreed that a very large fund indeed would be necessary to enable a business both to keep up the volume of its assets and to finance normal development. But, even cutting-out development, it was still true that insufficient funds were being retained in business—even though companies were wisely retaining a much larger proportion of profits than before the war.

In the absence of competition it was almost inevitable that taxation beyond a certain level would increase prices.

The chairman asked whether the Society had considered the desirability of amalgamating all taxes on company profits into one tax. Mr. Nelson replied that the Society was attracted by the idea ; it would reduce the complexity of the Statutes.

Mr. Nelson and Mr. Heaton expressed the view that the proposed uniform tax on companies should be at a lower rate on undistributed than on distributed profits. The rate on distributed profits would be certainly not less than the standard rate of income tax, so that the net dividend received by a shareholder could still be regarded as having suffered the appropriate burden of tax.

The chairman noted that the Society was opposed to a tax on capital gains on the grounds that money profits were illusive, being simply the reflection of the depreciation of the pound, that the tax would be difficult to administer and that there would be a strong temptation to evasion. Mr. Nelson observed that in addition there would be great difficulty in making allowance for losses. He felt that the area in which evasion of taxation took place would be increased with a tax on capital profits.

Mr. Crick spoke of the great expansion shown by the census figures in the number of accountants. Mr. Nelson said that most of the increase was in the numbers employed in the public service and in business. There was a much smaller increase among

those in professional offices. He ascribed the rising trend to the growing importance of taxation, with its heavy burden and complexity, and to the increasing use of accountancy methods for management purposes.

Mr. Crick asked the relative importance of the various aspects of tax work performed by accountants. What caused most trouble? Mr. Nelson replied: firstly, the ascertainment of taxable profits and allowances; secondly, the effect of taxation on business policy; thirdly, miscellaneous subjects such as double taxation, dividend deductions, and P.A.Y.E. He could see no prospect for some years of any substantial reduction in this work. If taxation were heavy, it must be complex in order to be equitable. It would be helpful if, as suggested in the Society's memorandum, some portions of tax law could be reviewed and simplified each year. A single tax on companies would also be a benefit.

The aim of professional accountants was to give the best possible advice to their clients. Mr. Nelson thought accountants were much better used in assisting efficient production than in advising on methods of saving tax.

Mr. Heaton considered that the profession exercised a very salutory influence on taxpayers—this, he thought, the Inland Revenue was ready to acknowledge.

On August 1, 1952, the last sitting of the present series was held.

The editor and deputy-editor of the *Economist*, **Mr. Geoffrey Crowther** and **Mr. Roland Bird,** gave evidence on their memorandum, in which they condemned the one "standard rate" and advocated three separate taxes: (*a*) a personal income tax deducted at source; (*b*) a graduated sur-tax collected after assessment; (*c*) a company tax on undistributed profits; and allowances to be given by the issue of vouchers to be lodged with employers as credits against tax deduction. In evidence, it was admitted that (*c*) might be better dealt with by taxing the whole profit and deduction at source from dividends. Under the present system it was only the company that, in fact, paid at the full standard rate. The complications of self-employed persons and individual traders was admitted. They thought that earned incomes of husband and wife should not be aggregated, but unearned incomes should because of the ease of transfer.

The Federation of British Industries were represented by Messrs. S. P. Chambers, C. D. Hellyar and A. G. Davies, who replied to criticisms of their sample of the effects of inflation on companies by saying that the inquiry had not started with tax problems in view. Nevertheless, the companies were representative: large, medium and small companies were included. The turnover was in some cases inflated by heavy duties; the true turnover would probably show a fall in production. The increase in employees, because of shorter working hours and part-time employment of married women, was greater than the increase in industrial re-equipment. Non-productive workers had increased. Mr. Chambers thought that the problem of inflation as applied to stock in trade was one that concerned the past rather than the future as there was now less room for movement in stock holdings than in fixed assets. He attached great importance to maintenance of business liquidity, which had been prejudiced because depreciation reserves against fixed assets had been used for the replacement of stocks at inflated prices.

A second memorandum by the Federation of British Industries makes, *inter alia*, the following points:

(1) Since the Royal Commission of 1920, the United Kingdom has lost its position as a creditor nation. The situation calls for the utmost adaptability on the part of British enterprises operating overseas, and the re-examination of taxation of overseas profits to ensure that the weight of United Kingdom taxation can be supported in competition with non-resident enterprises. All overseas income could be assessed on the actual year basis, as already happens in the case of income from the Irish Republic charged under Cases IV and V and in the case of income paid through a paying agent.

(2) The "benefits in kind" legislation makes it difficult for the Revenue to maintain fairness and uniformity of administration. The line drawn at £2,000 for employees and at zero for directors seems unnecessarily hostile to those classes where the division between business and private expenditure is most difficult to define. Much irritation and resentment is apparent today.

(3) Premiums on repayment of loans (including repayment at par of loans issued at a discount) for practical reasons should not be brought into the tax net.

(4) Charging husband and wife as single persons would remove many anomalies. If necessary as an incentive to go out to work, a wife's personal relief could be increased by £50.

(5) Tax should be deductible from all annual payments not specifically excluded, at the rate in force at the date the payments become due, overcoming the difficulties inherent in Sections 169 and 170, and making the recipient's liability independent of the circumstances of the payer.

(6) Controlled companies ought to be able to find out if a proposed distribution is regarded as reasonable for the purposes of Section 245. A company not making a reasonable distribution ought only to be charged to sur-tax on the amount by which the distribution falls short of a reasonable one. The "spreading" provisions of Section 238 should apply to income relating to a number of years received by a company to which Section 245 applies.

(7) There is a case for greater liaison between Inspectors of Taxes and Collectors of Taxes; *prima facie* for amalgamation of the offices.

(8) More attention should be given to the selection of local Commissioners.

(9) Administration and assessment of sur-tax should be transferred to the Inspectors of Taxes, leaving the Special Commissioners to hear appeals. Decisions of Special Commissioners on matters of general interest should be published.

(10) The multiplicity of authority to deal with penalties for evasion should be abolished by vesting the authority in one body, subject to appeal to the Court, with power to the Revenue to mitigate penalties. The procedure should be simplified and the maximum penalties reviewed. The present policy in cases of voluntary confession of refusing to promise in any circumstances immunity from prosecution is psychologically unsound.

The memorandum discusses many other matters, and underlines much that has already been said by various other bodies regarding capital gains, Schedule E expenses, earned income and personal reliefs, mitigating the undesirable effects of the present sur-tax system, abolition of Schedule A (an appendix shows the 22 different persons who can be charged under Schedule A), profits tax and Excess Profits Levy, etc.

Taxation Notes

Non-Residents' Reliefs

The practice regarding claims under Section 227, Income Tax Act, 1952 (the old Section 24, Finance Act, 1920), for a proportion of reliefs in the ratio that income liable in the United Kingdom bears to world income, is to make no restriction in respect of dividends affected by Section 350, i.e. where the net United Kingdom rate is less than the standard rate of income tax, unless the relief due exceeds the total of tax on liable income at the net United Kingdom rates.

Any other type of relief, e.g. bank interest, is repaid out of income taxed at the highest net United Kingdom rate.

ILLUSTRATION: 1951-52

Income not liable in U.K.	£1,200
Income liable in U.K., less Bank interest ..	200
	£1,400

Of the income liable in the U.K. £128 had net U.K. rates at the full standard rate, £32 had net U.K. rate of 9s. 4d., £100 had net U.K. rate of 7s. 9d., and £180 had net U.K. rate of 6s. 2d.

Reliefs:			
Earned income	£200		
Personal	190		
Children	140		
Life assurance	20		
	£550 at 9s. 6d.		= £261 5 0
Reduced rate	£50 at 6s. 6d.		= 16 5 0
	200 at 4s. 0d.		= 40 0 0
			£317 10 0
Repayment:			
$\frac{200}{1,400}$ × £317 10s. 0d.			= £45 7 2
Bank interest relief			
£240 at 9s. 6d.	= £114 0 0		
Less Sec. 350 relief			
£32 at 2d.	= £0 5 4		
80 at 1s. 9d.	= 7 0 0		
		7 5 4	
			106 14 8
£112			£152 1 10

Total liable income	£440
Less Section 350 items	312
Standard rate items	£128

Restriction applies to £240—£128=£112.

New Tax Reserve Certificates

The third series of Tax Reserve Certificates are now available. To meet current conditions, the interest rate has been increased from $\frac{3}{4}$ per cent. per annum to $1\frac{1}{4}$ per cent. per annum. The only other change compared with the previous issue is that the five-year limit on the life of a Certificate has been abolished, and Certificates can be surrendered at any time. Interest, however, will not be allowed on any Certificate for more than 24 complete monthly periods in all.

Readers may like to be reminded that Certificates will be issued for £25 or multiples of £25, and can be surrendered so that the amount of the Certificate, with accrued interest thereon, is accepted in payment of tax. Any Certificate not tendered in payment of tax can be surrendered for repayment of the principal without interest.

For the purposes of the Certificates tax is deemed to be due on the dates set out below:

Tax	*Due Dates*
Income tax (other than sur-tax)	
If payable in one sum	January 1 in the year of assessment for which the tax is payable.
If payable in two instalments	1st instalment—January 1 in the year of assessment for which the tax is payable. 2nd instalment—July 1 next following the end of the year of assessment for which the tax is payable.
Sur-tax	January 1 next following the end of the year of assessment for which the tax is payable.
Profits tax and Excess Profits Levy	The day next following the end of a period of six months from the end of the chargeable accounting period in respect of which the tax is payable.
Land tax	January 1 in the year of assessment for which the tax is payable.

Interest is calculated at the rate of $1\frac{1}{4}$ per cent. per annum for each complete period of one month from the date of the Certificate to the date on which the tax is deemed to be due, subject to the maximum of 24 months. If a Certificate is tendered in payment of tax, and the principal together with interest exceeds the amount of tax due, there will be applied in payment of the tax such part of the principal as with interest on that part is equal to the amount of the tax. The balance of the principal will be repaid without interest or a Balance Certificate issued with the same date as the original Certificate for the multiple of £25 next below the balance of the principal, together with a cheque for the remainder of the balance.

Interest is not calculated for calendar months, but from the date of the Certificate to the corresponding date in the following month or months. A Certificate cannot be accepted in settlement of tax deemed to be due at any time less than two months from its date.

The interest is not liable to any of the taxes.

Taxation in the Republic of Ireland

The main features of the Irish Finance Act, 1952, are as follows:

(*a*) The standard rate for 1952-53 is increased to 7s. 6d. in the £. Sur-tax rates are unchanged.

(*b*) The earned income allowance is increased to one-fourth of the earned income up to £800 and one-fifth of the excess, with a maximum allowance of £400.

(*c*) The age allowance is increased to one-fourth of the total income up to a total income of £600 (with marginal relief).

(*d*) The relative's maximum income for dependent relative relief is increased to £80.

(*e*) The reduced rate relief is now as follows: tax on first £100 of taxable income is at two-fifths of the standard rate, i.e. at 3s. in the £, and on the next £100 at four-fifths, i.e. 6s. in the £.

(*f*) Where life assurance relief has been at half the standard rate, it is to be at the lesser of (*a*) half the standard rate or (*b*) the rate found by dividing the tax payable (before any life assurance relief or double taxation relief but after deducting tax recoupable from any other person) by the taxable income, i.e. the total income less annual payments and personal, etc., allowances.

Double Taxation—Western Germany

A delegation from the Federal Republic of Western Germany and representatives of the Board of Inland Revenue met in London recently to discuss the conclusion of a convention for the relief of double taxation. The discussions will be continued in Bonn in the autumn.

E.P.L.—Official Help

The Board of Inland Revenue propose to make available to accountants copies of the working sheets issued to Inspectors of Taxes for computing liability to Excess Profits Levy. These will deal with standard profits, computation of profits and undistributed profits. They will be accompanied by notes for guidance. It is hoped that these forms and notes will be available in tax offices by the end of October.

It is a hopeful sign that the Revenue have at last realised that their time, as well as that of accountants, will be saved, by having uniform methods of presentation of computations. Readers will remember the difficulties that arose in checking Excess Profits Tax computations. The notes, etc., will be particularly valuable in small offices, where the general practitioner cannot easily find time to study all the complications of the Acts, possibly only to prove that one or two border-line clients have no liability.

Canadian Tax Foundation

Mr. J. Harvey Perry has been appointed Director of Research of the *Canadian Tax Foundation.* He was formerly in the Taxation Division of the Department of Finance, Ottawa.

Removal of Purchase Tax Office

The purchase tax section of the Customs and Excise Department has removed to King's Beam House, Mark Lane, London, E.C.3. (Telephone: Mansion House 1515).

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

INCOME TAX

Schedule D, Case I—Debts owed to firm—Three changes in partnership of cotton brokers—"Cessation" procedure on second change—Balance of debt taken over by Firm No. 3—"Cessation" not claimed on change from No. 3 to No. 4—Debt recovered in full—Allowance of bad debt reserve to Firm No. 1—Whether surplus over valuation received by Firm No. 4 a trade receipt of the firm—Income Tax Act, 1918, Schedule D, Cases I and II, Rule 11 (1); Finance Act, 1926, Section 32 (1).

Crompton v. Reynolds and Gibson (House of Lords, March 26, 1952, T.R. 169) was noted in our issues of August 1950, at page 286, and December 1950, at page 440. The facts and issue can be stated very briefly. Respondents were a firm of cotton-brokers, and during the relevant years there had been three changes in its composition. Upon only the second change had "cessation" been claimed. Firm No. 3 was, therefore, regarded as having commenced a new trade. About 1920, Firm No. 1 had sold cotton to Combined Egyptian Mills, Ltd. and in 1930 it was owed £200,000 by the latter. Upon the formation of Firm No. 3 in 1938, the debt had been reduced to £174,600; but, as the debt was doubtful, Firm No. 1 had been allowed a reserve of £50,000; and for purposes of transfer from Firm No. 2 to Firm No. 3 it had been valued at £124,600. Eventually, by December 24, 1946, the whole amount due had been liquidated by payments to Firms No. 3 and No. 4; and the Revenue claimed that the £50,000 constituted taxable profits in the hands of Firm No. 4 which, by reason of Rule 11 (1) of Cases I and II of Schedule D, had to be treated as a continuation of Firm No. 3.

The case had come before the Special Commissioners who, although they found that neither Firm No. 3 nor Firm No. 4 traded in book debts, nevertheless held that the transfers did not change the "quality" of the debt from revenue to capital and that it remained a debt "collectable in the ordinary course of trade and its collection was incidental to the trade and was therefore a trading receipt."

Roxburgh, J., had affirmed their decision, but on different grounds. He had held that there was liability because, although a capital asset purchased out of capital, the debt was circulating capital. He had also said that to hold otherwise would be inconsistent with *Harry Hall, Ltd.* v. *Barron* (1949, 28 A.T.C., 35; 30 T.C., 451). In the Court of Appeal, Evershed, M.R., whilst thinking that there was much to be said to the contrary, was not prepared to dissent from Singleton and Jenkins, L.JJ., who agreed that there was no finding of fact concluding the case in favour of the Crown; that the debt in the hands of Firms No. 3 and No. 4 was no part of their circulating capital, and was not acquired or employed in the trade carried on by them. Jenkins, L.J., held also that in view of the "cessation" the Special Commissioners had failed to consider the real question, whether the acquisition of the debt was on operations in the course of Firm No. 3's trade.

In the House of Lords, the decision of the Court of Appeal was unanimously affirmed, Lords Normand and Reid giving the only judgments. Lord Morton expressed his entire agreement with the former's speech, whilst Lords Tucker and Cohen merely concurred in the decision. Lord Normand, in the latter part of his speech, said that he agreed with the whole of the judgment of Jenkins, L.J. The Crown had claimed that the Special Commissioners' decision was a finding of fact; but the Commissioners' finding as to the absence of change in the quality of the debt was one of law and they had not specified the facts on which they relied. He said that they had not found that Firms No. 3 and No. 4 had traded in book debts; the "cessation" provisions had been applied; a salient fact was that the debt had arisen from trading operations completed at least eight years before Firm No. 3 came into existence; there was no finding that the debt had been acquired to further the trade of the new firm; it was a transaction in no way within the scope of the cotton-broking but preceded its commencement; and the collection of the debt was not a transaction in the course of cotton-broking. As regards this last point, he said that, as Jenkins, L.J., had pointed out, the amount collected would have been the same whether collected by a cotton-broker, or not.

He rejected the argument regarding fixed and circulating capital as merely clouding the issue. Referring to the case of *Harry Hall, Ltd.* v. *Barron* (1949, 28 A.T.C., 35; 30 T.C., 451), where a new company had taken over the book debts of a previous company and there had been a decision in favour of the Crown despite a finding that the appellant company was not a dealer in book debts, he held that that case should be disapproved:

> The reasoning which excludes . . . one book debt acquired by a new company which does not deal in book debts will equally apply where several or many such debts are so acquired.

Lord Reid's speech, whilst substantially in accord as a whole with that of Lord Normand, carried the matter somewhat further. He agreed that the *Hall* decision should be disapproved and that the finding that the new firms No. 3 and No. 4 did not trade in book debts, given its natural meaning, was fatal to the Crown's case. He doubted, however, whether this finding extended to other debts which the new firm took over from the old firm. The stated case, he said, did not disclose, but he was willing to assume, that there were others. The real question was whether there was anything in the stated case to indicate that the new firm's dealings with the one debt were a trading operation. Examining it in detail, he said that there was nothing more than what any other assignee of the old firm's rights would have done. Nevertheless, he declared:

> I do not think that it is at all impossible that a new firm should take over and deal with an old firm's book debts as a trading operation;

but that something more would have to be proved than mere taking over and collection.

Theoretically, the decision cuts both ways. It will apply to many and various circumstances, some of which may, of course, be brought into existence for the purposes of application. Upon the whole, it should make the question one of fact and afford valuable guidance in this respect.

Tax-free annuity under will—Whether liable to account for tax reliefs—Enforcement of liability.

In re Batley (Ch., April 4, 1952, T.R. 197) was by way of sequel to *In re Batley, Decd., Public Trustee* v. *Hart* (1951, Ch. 558, 30 A.T.C. 182) noted in our issue of July 1951 at page 273. In the first action it was held in the Court of Appeal, reversing Vaisey, J., that where a testator had bequeathed an annuity to his former wife of £416 for " her life without power of anticipation during any coverture, such annuity to be considered as a continuation of the alimony I am paying her during her lifetime," but subject to the maximum of one-third of the income of his estate after payment of income tax—a limitation which had become operative—the annuity was to be a net sum after deduction of tax. The Court, however, whilst reversing Vaisey, J., did so without prejudice to the question whether *In re Pettit* (1922, Ch. 765) applied.

The reserved point coming before Vaisey, J., he held that the *Pettit* rule applied and also *In re Kingcome* (1936, Ch. 566; 15 A.T.C., 37), with the result that the annuitant was a trustee of her rights to recover her statutory allowances and was bound, at the request of the trustees of the will, to exercise that right and, if necessary, must apply to be assessed separately from her husband under the Income Tax Act, 1918, General Rule 17 (1) (now Section 355 of Income Tax Act, 1952). An alternative view was that the annuitant's husband in so far as he obtained relief from tax in respect of her annuity would hold it impressed with a trust in favour of the testator's estate, and Vaisey, J., said that if necessary he was prepared to decide that he was under an obligation to claim the relief for the benefit *pro tanto* of the estate.

Author—Sale of copyrights during carrying on of profession—Whether consideration for sale taxable as income—Deduction of commission—Income Tax Act, 1952, Section 123, Schedule D, Case II, Case VI.

Mackenzie v. Arnold (Ch., April 29, 1952, T.R. 201) was a case which, although on familiar lines, was given a new look by a novel claim by the appellant arising out of special circumstances. Appellant was Mr. Compton Mackenzie, the well-known novelist, and the case arose out of a transaction in 1943 whereby he sold the copyrights of 20 novels which he had written during the years 1911-1930 whilst resident abroad. Some of these copyrights were vested in him at the time of his return to the United Kingdom in 1930 and the others had reverted to him at later dates, either by gift from his publishers or by virtue of the out-of-print clause in his agreements with them. The sum involved was £10,000 gross less an admitted allowable deduction of £1,000 for agency commission. At the time of the transaction the appellant was still carrying on his profession of author and the amount in question had been included in assessments under Case II of Schedule D for 1943-4 and 1944-5. (Full particulars of these assessments are not given in the judgment.) Two contentions had been put forward upon behalf of the appellant: first, that the sale was that of a capital asset not taxable as income, and, secondly, that if taxable in principle he was entitled to set off the sum of £19,000 found by the General Commissioners to be expenses incurred over a period of years in connection with the writing of the novels, the years in question being those in which he was resident abroad and not subject to United Kingdom income tax. The Commissioners had decided in favour of the Revenue; and Danckwerts, J., affirmed their decision.

The claim by a working author that a lump sum received from the sale of rights in a book did not, as being a capital receipt, constitute taxable income was under the authorities untenable. As regards the expenses point, the judge pointed out that there appeared to be no provision in the Income Tax Acts or the decided cases entitling an author to carry expenses forward and charge them against the profits for the year of assessment. He, moreover, pointed out that the appellant:

> if he were taxed to income tax, or had been a resident in this country in those years, he would already have received the proper allowance in respect of the expenses which he was incurring.

and the reader will note that the £19,000 claimed was the whole cost of producing the novels and not merely the cost of the residual copyrights sold in 1943.

A right was given to an author by Section 24 of Finance Act, 1944, now Section 471 of the Income Tax Act, 1952, to spread lump sums received in respect of copyright in a work upon which he has been engaged for more than twelve months, and this, really a sur-tax relief, met what would seem to be the only reasonable cause for complaint. Otherwise, there would seem to be no difference in general principle between authors and, say, speculative builders. In fact, a builder who sells in one deal an estate upon which he has been erecting a number of houses over a series of years, receiving rents in the meantime, may well complain of unequal treatment of a trade as compared with a profession. The judge's finding on the carrying forward of an author's expenses has, of course, to be considered as a rule generally but not universally applicable; and it may be noted that although Section 471 is a relieving and not a charging section, it does not deal with the question of allowable deductions.

SUR-TAX

Sur-tax—Dissolution of partnership—Covenant of continuing partners to discharge all outgoing partner's liability for income tax, excess profits tax and property tax of partnership down to date of covenant—Whether sur-tax included—Finance (1909-10) Act, 1910, Section 66—Finance Act, 1927, Section 38.

Conway v. Wingate (C.A., March 5, 1952, T.R. 145), arose out of a partnership dissolution. From 1936 until 1949, the plaintiff had half share in a partnership. In the latter year differences arose between the partners and by a deed dated October 21, 1949, the plaintiff assigned his half share to the first of the two defendants. By Clause 4 of the deed the partners in the new firm covenanted

> to pay and discharge all the debts and liabilities of the said partnership business subsisting or accruing at the date of these presents and all liability (including that of the

vendor personally) for income tax, excess profits tax and property tax of and relating to the said partnership down to the date of these presents . . .

and plaintiff claimed that the defendants had to pay him not only the income tax but also the sur-tax in respect of his share of the partnership income. Parker, J., had held that the plaintiff had not established his claim and a unanimous court upheld his decision, Singleton, J., giving the only full judgment. Although there is, in the writer's opinion, no question but that the decision was right in law, the judgment would seem to show an imperfect acquaintance with the provisions relating to the taxation of partnership profits and, in particular, to the Crown's right to demand the whole of the tax charged on a firm from any one of the partners. (See *Rex* v. *General Commissioners of Income Tax for City of London*, 24 T.C., Lord Simon at p. 240). The words " including that of the vendor personally " would seem to have had this personal liability in view. Normally, the Court is able to rely on counsel for the requisite information, but in the case under consideration it does not seem to have been forthcoming.

Sur-tax—Wife entitled for life to income from half of first husband's estate—Death of wife—Wife's residuary estate left to second husband absolutely—Dividends from first husband's estate—Apportionment to date of wife's death—Whether apportioned dividends income of second husband—Apportionment Act, 1870, Sections 2, 5—Finance Act, 1938, Sections 31, 32, 35.

Stewart's Executors v. C.I.R. (Ch. April 22, 1952, T.R. 185) raised a point of more than ordinary legal interest. The deceased, Lieut.-Col. Patrick Stewart, had married a Mrs. Walker, who under the will of her first husband was entitled during her lifetime to the income of half of his estate. She had died on May 23, 1943; and by virtue of the Apportionment Act, 1870, certain dividends declared and paid to the Walker trustees fell to be apportioned on the basis of accrual, with the result that £4,659 had been paid to Mrs. Stewart's executors as the proportion to the date of her death. Under Mrs. Stewart's will her husband was entitled to her residuary estate absolutely; and the Revenue claimed that by virtue of the provisions of Part III of the Finance Act, 1938, the said £4,659 was income of Lieut.-Col. Stewart for sur-tax. The special Commissioners had decided in favour of the Revenue and Danckwertz, J., affirmed their decision.

He said that if, instead of being entitled to the residue of his wife's estate absolutely, the deceased had been entitled to only a life interest, the sum in question would have been capital and he would only have been entitled to the income. Nevertheless, the question depended on the highly artificial provisions of the Income Tax and Finance Acts and the decisions of the Courts. He based his decision upon the provisions of Sections 31, 32 and 35 of Finance Act, 1938, and *C.I.R.* v. *Henderson's Executors* (1931, 10 A.T.C., 292; 16 T.C., 282) and *Wood* v. *Owen* (1941, 19 A.T.C., 411; 23 T.C., 541); and, in the present writer's opinion, the present case cannot be distinguished from the latter, where Lawrence, J., as he then was, held that the *Henderson* case was decisive of the issue. There, the Court of Session had held that the dividends apportioned to the date of death were not income of the deceased for income tax purposes, the Lord President declaring that the Apportionment Act " has nothing to do with the relations between income tax payers and the Revenue," and his brethren expressed a similar view. In the *Henderson* case the dividends which fell to be apportioned *had been received by the Henderson executors* and it was they who had to do the apportioning. The Court held that, in the words of Lord Sands, " The tax is exigible when the income is received and from the person receiving it," a view in consonance with the decision in *Wigmore* v. *Summerson* (1925, 9 T.C., 577). In the present case, the dividends which fell to be apportioned *were received by the Walker trustees and not by Mrs. Stewart's executors*. In *Wood* v. *Owen*, Lawrence, J., held that, where an executor resident in the United Kingdom received apportionments of untaxed interest from certain Government securities, *which untaxed interest had been received by trustees resident in Guernsey*, he was bound by the *Henderson* decision to hold that the amount received by the executor in the United Kingdom was directly assessable upon him. For the purposes of his judgment it was assumed, following the well-known rule, that the Guernsey law as to apportionment was the same as that of the United Kingdom. The fundamental issue in both *Wood* v. *Owen* and the present case would seem to have been the same. If the trustees of A. hold stocks, etc., as trustees and receive income therefrom which during B.'s life has to paid to him, and B. dies, then any dividends, etc., accruing in part during B.'s life, but received by A.'s trustees afterwards, have to be apportioned by the latter and the appropriate part paid over to B.'s executors. The question is whether any such amount so paid over to B.'s executors by virtue of the Apportionment Act constitutes income for income tax purposes of the recipients. *Wood* v. *Owen* may have been correctly decided; but the *Henderson* case involved a different and, in the present writer's opinion, an opposed principle.

ESTATE DUTY

Gifts inter vivos*—Shares in private unlimited company controlled by deceased donor—Transfers of shares before material date—Registration of transfers after material date—Whether beneficial interests in shares transferred before registration—Customs and Inland Revenue Act, 1881, Section 38 (2) (a)—Customs and Inland Revenue Act, 1889, Section 11—Finance Act, 1894, Section 2 (1) (c)—Finance Act, 1946, Section 47.*

In re Rose (C.A., April 4, 1952, T.R. 175) was the subject of a full note in our issue of January last at page 35, the point at issue being one of very considerable importance. Deceased, who died on February 16, 1947, was governing director of a private unlimited company. Under the articles the directors had, as is commonly the case, an absolute right to refuse registration of transfers and the company was entitled to treat the registered shareholder as the absolute owner and was under no obligation to recognise any trust or equitable interest in shares. Deceased, in order to make gifts of the shares, had done everything in his power by executing transfers and delivery of share certificates upon March 30, 1943, and—an important point in the case of an unlimited company—the covenants by the transferees had also then been executed. The executed deeds had been duly stamped after adjudication upon April 12, 1943. They were not, however, registered by the company until June 30, 1943; and it was common ground that if the gifts were not complete before April 10, 1943, they were to be taken into account for duty. The Crown had claimed that until registration either there was no effective transfer of the shares to the donees or there was no exclusion of the donor from all benefits. Roxburgh, J., had held that the claim to duty failed, resting his judgment largely on an entirely different case of the same name, *In re Rose* (1949, Ch. 78); and a unanimous Court of Appeal affirmed his decision. Evershed, M.R., and Jenkins, L.J., alone gave judgments, Morris, L.J., concurring. Leave to appeal to the House of Lords was refused but may, of course, be the subject of application to the Appeals Committee.

Both judgments are of great legal interest and the result may be summed up in the following passage from that of Jenkins, L.J.:

> But, in my view, it is a fallacy . . . that there can be no complete gift of shares as between transferor and transferee unless and until the transferee is placed on the register. In my view, a transfer under seal in the form appropriate under the company's regulations, coupled with the delivery of the transfer and certificate to the transferee, does suffice, as between transferor and transferee, to constitute the transferee the beneficial owner . . .

the situation of the legal ownership does not affect the question.

The decision is of much wider application than to gifts *inter vivos* for estate duty, and, unless reversed in the House of Lords, establishes that, whilst a company by its regulations may only recognise the ownership evidenced by its register, a properly executed but unregistered transfer deed will pass the equitable ownership as from the date of the deed.

PROFITS TAX

Profits tax—United Kingdom company director-controlled—Eire company formed to carry on similar business—Shares in United Kingdom company held by Eire company—Loan to latter by former—Whether loan an amount applied for "benefit of any person"—Finance Act, 1947, Sections 35, 36 (1) (c).

C.I.R. v. Chappie, Ltd. (Ch., April 30, 1952, T.R. 205) seems to have been one of the many cases where an innocent sheep is caught in a trap devised for the goats of tax evasion. The respondent was an English company engaged in the making of animal foods and had formed an Irish company, Chappie (Ireland), Ltd., to carry on a similar business in Eire. The former was admittedly director-controlled and had appealed against an assessment to profits tax in respect of the chargeable accounting period commencing March 17, 1947, and ending March 16, 1948. On September 16, 1947, 18,000 "B" shares of £1 each of the United Kingdom company had been issued to the Irish company and a call of 1s. per share had been paid. Upon March 18, 1948, two days after the end of the chargeable accounting period, those shares had been forfeited for non-payment of calls. On September 16, 1947, the respondent had lent the Irish company £35,000 upon debentures carrying 5 per cent. interest. Owing to losses there had been complete default as regards payment of interest and in November, 1947, and May, 1949, the respondent had waived payment of interest to October, 1947, and October, 1948, respectively, heavy losses having been incurred by the Irish company and its business disposed of.

As the respondent was a director-controlled company and during the chargeable accounting period the Irish company was a member, by virtue of Section 36 (1) (*c*) of the Finance Act, 1947, the loan fell to be treated as a distribution of profit if it was "for the benefit of any person." The Special Commissioners had found that the 5 per cent. charged on the loan was a "commercial rate of interest" and, in view of decisions of the House of Lords in *C.I.R.* v. *L.B. (Holdings), Ltd.* (1946, 25 A.T.C. 18, 26 T.C. 1) and *Vestey's Exors.* v. *C.I.R.* (1949, 28 A.T.C. 89, T.C. 1), that loans by trustees at commercial rates of interest were not "benefits" to the borrowers, had held that the £35,000 was not caught by Section 36 (1) (*c*) despite the fact that in the estate duty case of *St. Aubyn* v. *A.G.* (1952, A.C. 15; 30 A.T.C. 193), Lord Radcliffe had expressed an emphatic view that all loans were benefits to borrowers regardless of the interest factor. (In the note on the last-mentioned case in our November, 1951, issue, at page 425, this discrepancy of decisions was pointed out.) Danckwerts, J., acting upon the last-mentioned case, held that a loan repayable in certain circumstances and chargeable with interest was capable of being a benefit, and that the present loan was "for the benefit" of the Irish company. He, therefore, reversed the Special Commissioners' decision.

There have been cases in international relations where loans have been forced upon unwilling borrowers. Apart from such extreme cases, the present writer finds it difficult to comprehend, looking at the matter, as it would seem it must be looked at, solely from the borrower's standpoint at the time of the contract, how any loan can be other than a "benefit" to him. The fact, to give another extreme case, that the money may be subsequently "invested" and lost on "the 2.30" would seem to be irrelevant. It is, unfortunately, the case that there is no means of reconciling the opposed decisions of an infallible Court like the House of Lords.

SPECIAL CONTRIBUTION

Special contribution—Limited company—Employees' shares subject to special restrictions—Liability to surrender shares on cesser of employment if called upon—Whether income from shares "investment income" or from "a source of earned income"—Income Tax Act, 1918, Section 14 (3)—Finance Act, 1948, Sections 47, 48, 49.

Recknell v. C.I.R. (Ch., April 24, 1952, T.R. 193) arose in connection with the Special Contribution imposed by the Finance Act, 1948, upon "investment income" exceeding £250 in the case of persons whose total income exceeded £2,000 for the year 1947-8. By Section 49 the general definition of "investment income" is "income from any source other than a source of earned income" and, by Section 62, the meaning of "earned income" is to be the same as for income tax. By Section 14 (3) (*b*) of Income Tax Act, 1918, this expression includes:

> any income from any property which is attached to or forms part of the emoluments of any office or employment of profit held by the individual

and the question in this case was whether certain income received by the appellant fell within its compass. He was an employee of Ralli Bros., Ltd., the well-known merchants and bankers. Under the company's articles there was a class of shares called "A" shares intended for the benefit of employees and with special rights and restrictions; and, save in the case of the first issue, no "A" shares could be issued other than to directors, local directors, managers or employees. In the event of the holder of "A" shares ceasing by death, retirement, removal or otherwise to be connected with the company, the Executive Committee of the company could require him to sell or transfer his shares; but the committee was not compelled to do so, and former directors, managers or employees had been allowed to retain their "A" shares after they had retired. The right to purchase was a privilege and, although there was no fixed rule, the more important the appointment held in the company the greater was the number of "A" shares he was allowed to acquire and hold. The evidence was that the holding of the shares was intended to constitute an incentive. The appellant had acquired from time to time 1,500 "A" shares which had produced during the material year £450. This sum had been included in the Special Contribution assessments and, on appeal, the Special Commissioners had held that neither the shares nor the income therefrom were attached to or formed part of the appellant's emoluments as an employee within Section 14 (3) (*b*) of the Income Tax Act, 1918. Danckwertz, J., reversed their decision. He said that the words in the definition "any income from any property which" were ambiguous, as had been pointed out by Harman, J., in *Dale* v. *C.I.R.* (1951, 30 A.T.C. 235), but, like the latter, he preferred the "which" being read as referring to "property" rather than to "income." In the case before him, he held that the "A" shares were attached to the office or employment held by the appellant because otherwise he would not have been qualified to be allotted any shares at all and, on his retirement, the Executive Committee could call upon him to part with his shares even if they did not at once do so.

The decision seems to go a long way from what was originally intended, and, if the case goes further, it remains to be seen whether the term "property" in the definition is not held to be limited to property which, like the parson's glebe, passes with the office to which it is attached. The decision as it stands would seem to open up considerable possibilities.

The Student's Tax Columns

PATENTS AND INCOME TAX

Purchases

EXPENDITURE ON PATENT RIGHTS BY WAY OF EITHER OUTRIGHT purchase or licence (including, since July 9, 1952, expenditure before the grant of the patent, in obtaining the right to acquire such rights in the future, provided the rights are subsequently acquired) qualifies for allowances unless the rights were the subject of a sale before April 6, 1946.

A trader liable to United Kingdom income tax can claim allowances on his business profits in respect of patent rights acquired for the purposes of the business. The allowances are given in the same way as capital allowances for wear and tear of machinery, i.e. they are deducted in the assessments on the business profits. Any balance of relief not so given can be added to the next year's allowances, and so on until relieved in full. The relief is given first in the year of assessment in the basis period for which the expenditure is incurred.

The allowance is given by equal annual instalments over the residue of seventeen years since the date of the patent that has to run on the date of the expenditure on its acquisition, or the period, if less, for which the rights have been acquired.

A non-trader resident in the United Kingdom can claim an allowance in respect of any patent rights; a person not resident in the United Kingdom can only claim on United Kingdom patent rights. The calculation of the allowances in these cases is the same as for a trader, but the relief begins in the year of the expenditure, and the allowances are given against patent income, i.e. income from the sale of patents or from patent royalties, etc.

If patent rights which are eligible for relief are allowed to lapse, or are sold, before the expenditure has been allowed in full, annual allowances cease, but a balancing allowance or balancing charge will be made to ensure that the relief given totals neither more nor less than the original expenditure, less any proceeds of sale, i.e. what has been the net cost to the claimant. If the sale proceeds exceed the original expenditure, the excess is taxable as stated below. A trader's balancing charge is made as an addition to his trading assessment; anyone else is assessed under Case VI.

Where only part of the patent rights are sold (e.g. a licence for a certain country only):

(*a*) If the sale proceeds are less than the written-down value of the original expenditure, the proceeds are deducted and the balance spread over the remainder of the period for allowances ;

(*b*) If the proceeds exceed the written-down value, a balancing charge is made, and annual allowances cease.

(*c*) Any subsequent sales will be treated similarly; if they are of the whole balance of rights, the balancing allowance or charge will be made as already described.

Illustration.—Trader, making up accounts to December 31, bought patent rights on August 31, 1950, having 10 years to run, for £8,000. On February 1, 1952, he granted an exclusive licence for Ireland for £2,500, and in April, 1954, he sold the balance of his rights for £6,000.

		Allowed
Cost, 1950	£8,000	
1951-52 allowance $\frac{1}{10}$th	800	£800
	7,200	
1952-53 do.	800	800
	6,400	
1952 sale of part of rights	2,500	
	3,900	
1953-54 allowance $\frac{1}{8}$th	488	488
	3,412	
1954-55 do.	488	488
	2,924	
1954 sale	6,000	
Excess	£3,076	
Balancing charge limited to		£2,576

Sales

Provided there had been no sale of the rights or of a licence in them before April 6, 1946, any sale of patent rights or of part of them or of a licence in them (or, since July 9, 1952, of future rights such as are mentioned in the first paragraph of this article) will attract liability to income tax. The liability extends to the sale of any rights anywhere by a United Kingdom resident, but only to United Kingdom patent rights of a non-resident.

The liability is on the profit made by the sale, i.e. on the excess of sale price over cost, e.g. in the example above, £2,500+£6,000−£8,000=£500, which is, of course, the excess sale proceeds not the subject of a balancing charge. The charge is spread over six years (under Case VI), commencing in the year of sale, unless the seller claims to be assessed wholly in that year. If he dies during the period of spread, any balance becomes due in the year of death. The same applies to the winding up of a company, or discontinuance of a partnership. On death or on discontinuance of a partership, a claim may be made to reduce the tax payable to what it would have been if the profit on the patent had been spread equally over the period between the year of sale and that of the death or discontinuance.

Illustration.—A sold a patent in June, 1949, at a profit of £2,400. The tax would be payable on £400 a year from 1949-50 to 1954-55 inclusive. If A died in 1952-53, however, the instalments for 1952-53, 1953-54 and 1954-55 would become assessable in one sum, i.e. £1,200, in 1952-53. His executors could claim, however, to spread the unassessed amounts, i.e. for 1953-54 and 1954-55—a total of £800—equally over the years 1949-50 to 1952-53, inclusive, and to pay the total additional tax so arrived at. This may be an important relief, owing to sur-tax.

If the seller of United Kingdom patent rights is not resident in the United Kingdon, the purchaser must deduct income tax from the purchase price at the standard rate and pay it to the

Revenue. The seller can claim repayment in respect of the cost to him of the patent rights, and also relief by spreading his profit over six years. In appropriate cases, under conventions for the avoidance of double taxation, a dispensation may be obtained to prevent the deduction of tax at source.

Royalties

Royalties and similar payments for the use of patents are annual payments subject to deduction of income tax at source. If such a payment is received covering use for a period of six years or more, a claim may be made to have it spread back over six years ending with the year of receipt. If the period is over two but less than six, the claim is to have it spread over the number of years in the period.

Patent income includes all sums assessable as above. It is earned income provided the patent was sold by the inventor.

Expenses

Expenses incurred by a trader in devising a patented invention are allowable as deductions in his assessments, like capital allowances for wear and tear. Those incurred by other persons are deductible from patent income. Patent Office fees, agents' charges, etc., incurred by a trader for obtaining a grant or extending the life of a patent and renewal fees and the cost of them are deductible in computing trading profits.

Fees and expenses in connection with unsuccessful applications for patents are treated in the same way as if the patent were granted.

Publications

ACCOUNTING AND COSTING IN THE PAINT INDUSTRY. By the Paint Materials Trade Association. (*Published by the Association at 26, Claremont Road, Surbiton, Surrey. Price 30s. net, post free.*)

Before this readable little book appeared there was hardly a single practical British publication on costing in the paint industry. We are now provided with a work produced by a committee whose well-balanced membership disposes of a wealth of experience in the industry and in the accountancy profession.

Much space is devoted to stock control and its importance is repeatedly stressed. There are many practical difficulties to be surmounted in putting into practice in factories the measures here proposed. It is appropriate, therefore, that the need for good stock-keeping should be emphasised, as well as that details should be given of how it is to be achieved. Many will be surprised by the figures quoted for storage losses of raw materials and they may stimulate further practical study in the industry.

The book, which is amply illustrated, recognises that many companies wish to improve their methods but are too small to employ a full-time cost accountant, and therefore the methods presented are suitable for application by the smallest of concerns.

Even the best of books have their shortcomings and this one has some of the disadvantages of having been prepared by a committee. The basis chosen for the allocation of overheads was direct labour hours. It would seem that in subsequent discussion in committee the defects of this method were discovered and notes of a few other possible bases were then briefly added. Accurate ascertainment of direct labour hours per batch is indeed extremely difficult in the paint industry, as is admitted. This difficulty is not lessened by the inclusion in the volume of yet another definition of direct wages.

A feature of the book is the "gauges" which are given as yardsticks to efficiency and trends. These will be helpful to managements, particularly of smaller producers. If ever a revised edition is undertaken, however, the substitution of more durable bases of comparison (for example, volume or hours) for money values would in places be an improvement.

The chapter on price estimating is not of the same quality as the rest of the book and might well have been omitted altogether. The terminology used is the same as in the sections on costing, but it carries quite different meanings, and this will be confusing to many readers.

H. W. B.

AN INTRODUCTION TO ECONOMIC ANALYSIS. By J. K. Eastham. (*English Universities Press. Price 15s. net.*)

INTRODUCTION TO ECONOMICS. Second edition. By A. Cairncross. (*Butterworth and Co. (Publishers), Ltd. Price 18s. 6d. net.*)

GUIDE TO ECONOMICS. By F. H. Spencer, D.SC., LL.B. Sixth edition by R. Ogden, M.A. (*Sir Isaac Pitman & Sons, Ltd. Price 7s. 6d. net.*)

ECONOMICS OF INDUSTRIAL ORGANISATION. Second edition. By A. Beacham, M.A., PH.D. (*Sir Isaac Pitman & Sons, Ltd. Price 15s. net.*)

"Economics," remarks Professor Cairncross in his opening chapter, "is a very complicated subject." The appearance of these four texts, all designed for the beginner, fully substantiates this opinion. It is because the subject matter of economics is so extensive that it is impossible to treat adequately all aspects of the subject within the compass of one book. In consequence, one of two alternative approaches is normally adopted by the author. The first is that used by Mr. Eastham. His book is specifically designed for a particular section of the reading public: university students about to embark upon an honours course in Economics. He has produced a first-class introduction to modern economic theory (complete with occasional mathematical proofs). Although admitting in the preface that his book is primarily designed for the university student, the author commends it to "the general reader who finds his grasp of analysis inadequate for his studies of economic policy." Mr. Eastham may well desire to extend the influence of his study, but in the reviewer's opinion, precisely because he has achieved his major objective so well, his commendation claims too much.

The second approach is to write a general text-book covering as many aspects of economics as possible. This approach is liable to be rather less than completely successful because usually no particular class of reader is sought: in endeavouring to suit everybody the work tends to lose in incisiveness. The academic student must be provided with a skeleton of theory: the man in the street must be given a practical "explanation" of the world's ills—unemployment, balance of payments problems, and so on. Undoubtedly this is the most difficult type of books on economics to write, for unless it becomes a miniature encyclopædia, many points must inevitably be glossed over or treated cursorily. Yet the second and enlarged edition of Professor Cairncross's book is one of the best of this type, and unlike the deservedly popular first edition, it is well printed. According to the jacket, "theory is throughout brought to bear on the current problems of economic policy." Admittedly the theoretical sections are enlivened by illustrations drawn from the world at large and most of the book is concerned with the wider problems of industry, trade, unemployment, and economic planning. Professor Cairncross is giving the lay reader and student just the material they expect to meet when they take up the study of economics.

But surely it is rather too much to expect

of any book, even one as good as this, that within some 580 pages the reader will receive what the author calls "a technique of thinking," which will enable him to deal with these problems. What Professor Cairncross does—and how well he does it!—is to state in a readable style the main issues underlying current controversies. This book should be read by university students in conjunction with a theoretical study such as *Eastham*; the professional student, however, may find *Cairncross* a little too solid for his requirements. He would be well advised to begin with a simpler text and then to supplement the applied chapters with selected readings from *Cairncross*.

The "modernised" version of Dr. Spencer's well-known *Guide* illustrates all too clearly the change which has taken place in economic studies since Marshall. Only the most elementary of students will read this little book, but there is much sound comment on many subjects.

The last study—the first edition of which was reviewed in ACCOUNTANCY for January, 1949 (page 21)—differs from the others since it deals with only a very restricted field of economics, namely, with the influence of economic factors on the size, ocation, finance and control of industrial undertakings. It forms a useful and clearly written introduction to a branch of applied economics generally neglected by university students. The professional student will also find much to interest him. It is a little surprising to find only a bare reference to the reports of the various working parties in a book so fully and recently revised.

A. R. I.

GUIDE TO INCOME TAX. By N. E. Mustoe, M.A., LL.B., Barrister-at-Law. (*Butterworth and Co. (Publishers), Ltd. Price £1 11s. 6d. net.*)

In his preface Mr. Mustoe says this book is intended to give the reader the important parts of the contents of the Income Tax Act, 1952, and to assist him in finding his way about the new Act. He starts with a brief introduction dealing with the origin and general administration of the income tax and then proceeds to outline in concise and lucid fashion the actual provisions of the Act. This he does in some 260 pages of clear type—something of an accomplishment bearing in mind the fact that his text contains a number of useful examples, that the Act itself runs to more than 500 pages and that he makes ample use of case law decisions.

Four appendices conclude the actual text of the book and three of these give useful summaries of case law under the headings which have probably given rise in the past to a very large part of tax litigation, namely:

Decisions on trading and non-trading,
Decisions on the deduction of expenses, and
Tests for capital expenditure.

A table of Sections of the Act covered by the book, a table of cases and a comprehensive index, always important for a work such as this, conclude the book. Throughout the work each paragraph is numbered, following the modern practice, which may well have originated in the Board of Inland Revenue's own instruction books for its staff.

In the main Mr. Mustoe follows the order of the Act itself, and it is here perhaps that one minor criticism arises. The Act deals with the assessment of ownership of land and buildings in two entirely separate parts—Schedule A in Sections 82 to 116 and rents and other receipts in Sections 172 to 183. Mr. Mustoe does likewise, with results that might well confuse newcomers to the subject. There was an opportunity here to depart from the strict order of the Act and to link these two parts together. It is, of course, appreciated that the main object of the book is to give a summary of the consolidating statute and the result of case law decisions, and Mr. Mustoe has made an admirable, concise and workmanlike job of this. Nevertheless, this criticism on the treatment of land ownership is an example which does throw up a rather wider point—to one studying the subject for the first time and with knowledge only of this Act there are peculiarities and anomalies which are bound to confuse. One realises the immense difficulty of getting over this when dealing with an Act which consolidates a veritable patchwork of complicated legislation. However, it might have been some help to add at least a brief explanation of the origins of the Act in the introduction, and to give an example or two of the peculiarities which are attributable to those origins. The introduction might too have dealt a little more fully with the administration of the tax—it does help a lot in understanding a complex subject such as income tax to know exactly how it is applied and what are the reasons behind certain functions and peculiarities.

Incidentally, Mr. Mustoe is not quite up to date in what he says about Inspectors of Taxes. Since the "dilution" of the inspectorate in recent years the number is now nearer 2,000 than his 1,500. A substantial proportion of this 2,000 is centralised at the Board's head office and the rest are spread over some 700 district offices throughout the country.

J. W. W.

FACTS, FILES AND ACTIONS. (Part I). By J. Edwin Holmstrom, PH.D. (*Chapman and Hall. Price 36s. net.*)

This book contains some thirty essays relating to various facets of British social and political life and institutions. The subjects range from art and design to corporations, education and training, from local government services to government and religion. Each essay is roughly 5,000 words and the accounts are discursive. There is, however, an excellent bibliographic cross-reference to the text.

"The book is intended," states the author, "for the planner and man of business in general," and is designed to provide them with a brief account of the institutions and activities outside their own fields. This is the first volume of a trilogy. Subject to the limits imposed by space, it provides a reliable source of information, although it is not completely comprehensive within the scope the author allows himself—a scope which is somewhat curiously delimited.

A. R. I.

INSTITUTE OF INTERNAL AUDITORS

At the fourth annual general meeting of the London Chapter of the Institute of Internal Auditors (New York) the President, Mr. H. W. Parker, A.C.A., reported that the monthly meetings throughout the year had been very well attended, and that the lecture course in the autumn of 1951 had been most successful. A similar course of lectures will be held during the 1952-53 session, and a further conference will be arranged.

The officers elected for the year 1952-53 are as follows: President: Mr. A. L. Watson; Vice-President: Mr. A. H. Abbot; Secretary: Mr. O. A. Mackinnon, C.A., c/o British Broadcasting Corporation, Broadcasting House, London, W.1; Assistant Secretary: Mr. F. H. C. Funnell, A.C.A.; Treasurer: Mr. G. E. Hindshaw; Board of Governors: The above Chapter officers, the four immediate past-presidents, (Mr. J. R. Robinson, A.C.A., Mr. H. E. Osborn, B.COM., C.A., Mr. P. B. Hills, A.C.I.S., and Mr. H. W. Parker, A.C.A.), and three elected members (Mr. C. A. Cox, F.I.A.C., Mr. R. A. Reid, C.A., and Mr. W. N. Wright, M.A., C.A.).

The main object of the Chapter is the development of internal auditing as a constructive aid to management; to that end it collects, analyses and disseminates information, and promotes discussions amongst members. Membership is limited to those holding responsible managerial positions covering the field of internal auditing, and the Institute grants no qualifications either by examination or otherwise.

Readers' Points and Queries

Repairs to Recently Acquired Business Premises

Reader's Query.—I have recently encountered some difficulty in connection with rather extensive repairs carried out by a client to some newly acquired business premises. It is a fact, I believe, that the principle in the *Law Shipping* case is generally not now so rigidly applied in such circumstances as was formerly the case. My difficulty arises in connection with improvements undertaken simultaneously with necessary repairs. Hitherto, of course, the practice has been to treat the whole of such expenditure as indivisible, the whole amount being regarded as capital. I believe, however, that I read recently of a decided case, or of concessional treatment in which the Inland Revenue allowed that part of the expenditure which could be definitely proved to relate to repairs, as distinct from the improvements.

One further point of a similar character: where the lessee makes dilapidation payments after the term of his lease has expired, I believe the practice is for the Inland Revenue to regard this as being in the nature of deferred repairs. If this is so, are past assessments reopened, such expenditure being "spread," or in what other manner are the adjustments made?

Reply.—The Law Shipping *case has no application to Schedule A; repairs go into a maintenance claim whether they were done by a previous owner or by the new owner. It does apply to Schedule D, where only repairs arising from the use of the premises since acquisition can be regarded as allowable. It may be a question whether there is improvement or repair (cf.* Samuel Jones & Co. (Devonvale), Ltd. *v.* C.I.R. *(1951), 30 A.T.C. 412;* Phillips *v.* Whieldon Sanitary Potteries, Ltd. *(1952, T.R. 113); and* Lawrie *v.* C.I.R. *(1952, T.R. 305). Where dilapidation payments came within Section 137 (d), Income Tax Act, 1952, or are allowed by concession, they are not spread for income tax purposes. We know of no instance where such an allowance was made after cessation of business.*

The Excess Profits Levy as Amended

Reader's Query.—A point has arisen on the illustration of the computation of the standard for the C.A.P. ending December 31, 1952, contained in the article in the July issue (pages 236-7), on which I should welcome your advice.

The two years 1948 and 1949, these having the largest profits of the three, have been accepted as the standard years. It would seem, however, that the two years 1947 and 1949 would show a better final standard. This arises from the fact that there would be an entitlement to 12/24ths of 12 per cent. of the additional capital raised at March 31, 1948, instead of only 3/24ths as on your illustration.

There is, of course, an adjustment to be made to the calculation of the allowance for undistributed profits, due to the change in the relevant date, but this does not appear to offset the gain.

Reply.—Condensation seems to have been carried too far in the illustration. If it is assumed that there are no other changes in the figures, our reader is obviously correct. Other factors enter the computation, however—e.g. borrowed money. We emphasise the closing sentence of the article: "It will often be necessary to work out the whole of the figures for each method before deciding on the standard years."

Reader's Query.—In your illustration on pages 236-7 of the July issue, kindly confirm that you omitted to give effect to the interpretation clause 4 (1) of the Tenth Schedule, Finance Act, 1952. Should not the "Increase in profits tax as a result of net relevant distributions" be halved ?

Reply.—The reader's interpretation is correct. We regret that the word "half" was omitted in the example in question. This is one of the penalties of over-condensation of wording to fit a lot of figures into a small space.

"Permanent Discontinuance"

Reader's Query.—Our query deals with the assessment of farming profits where a farmer disposes of his farm in the ordinary course of business, or dies. Quite recently an Inspector of Taxes has, in the case of a farmer who died, agreed with us an assessment ignoring balancing charges and balancing allowances on the basis that the death of a farmer constitutes permanent discontinuance. On the other hand, the Inspector of Taxes in a neighbouring district in a similar case states that balancing charges and balancing allowances cannot be ignored—in other words there is in his opinion *no* permanent discontinuance.

Reply.—It is a question of fact whether the business has been "permanently discontinued." Reference to the last paragraph of sub-section (1) of Section 292, Income Tax Act, 1952 (Section 17 (1), Income Tax Act, 1945), shows that, for balancing charges and allowances, the happening of any event treated for assessment purposes as equivalent to the discontinuance of a business is not regarded as "permanent discontinuance." The death of the owner creates a succession which causes assessment as if there were a discontinuance, but this is not "permanent discontinuance," since the business goes on with a new owner. For other purposes of the Acts, it would operate as permanent discontinuance (Section 333 (4) Income Tax Act, 1952; Section 68 (4), Income Tax Act, 1945). The only exception would be if the business were closed the same day, which is difficult to visualise in the case of a farmer.

Reader's Query.—With regard to the article on page 196 of the June issue dealing with the Capital Allowances position in the 1952 Finance Bill, I have a case on which I should be grateful for your observations.

A and B were in partnership until September 30, 1951, and notice under Rule II, Cases I and II of Schedule D, was given treating the termination of the partnership as a permanent cessation. A carried on in partnership with C from that date. B, however, ceased to trade and became an employee and assessed under Schedule E from November 1, 1951, onwards.

B sold his car in March, 1952, and the Inspector seeks to levy a balancing charge of a considerable amount on the grounds that the final sentence of Section 17 (1) of the Income Tax Act, 1945, defines "permanent discontinuance" as not referring to events which by reason of the application of Rule II are to be treated as equivalent to a discontinuance.

There is, of course, no argument against this in the case of A, but B's discontinuance was factual. Cannot this balancing charge levied on B be disputed?

Reply.—There has been no "permanent discontinuance," but it is considered that, since the sale took place in March, 1952, no tax on the balancing charge can be levied from B, as the sale did not occur in a basis period of B in the same subject of assessment. The balancing charge arises out of allowances under Schedule D, but at the relevant date B is only assessed under Schedule E. The Sixth Schedule to the Finance Act, 1952, is not retrospective.

Deceased Partner's Capital

Reader's Query.—H and G are in partnership, taking two-thirds and one-third of the profits respectively. The assets include property £1,500, which is the cost price. H dies, and the Estate Duty Office consider the property to be worth £2,500 and that there is goodwill value £1,000. Should H's capital in the partnership be increased by two-thirds of £2,000?

Reply.—This is a matter for the partnership agreement. The amount due to H's executors is not affected by the estate duty valuation.

The Month in the City

Return of Confidence

Having been jolted into reverse by Mr. Churchill's forebodings, the stock market marked time until the economic debate, held at the end of July, revealed that the Government's proposals were very far from being heroic. Thereupon the Exchange regained its confidence. Looking only a short while ahead, the market was more relieved by the reprieve from drastic measures than it was concerned over the threat that their absence will bring long-term economic difficulties. There was a recovery in gilt-edged prices, based in part on the news that the sterling area's gold and dollar reserves rose in July for the third month in succession. There was also an even stronger revival in equity prices, which led to a gain in the *Financial Times* ordinary share index of 3·6 points to 112·9 within a week of the economic debate. But the markets are still thin, and the only fresh note to be recorded, apart from the spurt in activity in the market for German issues, was the broadening of interest in engineering shares. This was the natural response to increasing emphasis upon the role that the engineering industry must play in Britain's economic recovery. The recovery so far achieved can be measured by the changes in the indices of the *Financial Times* between July 21 and August 20. These are as follows: fixed interest, from 101·88 to 103·18; gilt edged, from 91·45 to 93·02; equities, from 108·9 to 112·9, which compares with the peak of 114·1 touched at the end of April; and gold shares from 94·67 to 97·95.

Controlling Credit—

The connection between inflationary pressures at home and the balance of payments problem needs no stressing. So far the Government's chief weapon in the fight against inflation has been the restriction of credit and the return to dearer money. Both the decline in new issues in the second quarter of this year and the ingenious trimmings that have been given to some of the more recent issues—the new debenture stock, complete with an option to take up ordinary shares next year, issued by *Rugby Portland Cement* is one notable example—point to the success of this policy. But there are signs that the screw needs tightening again, especially since non-monetary measures, far from supporting the restrictionist policy, are operating rather in the opposite direction. It is clear from the latest statements from the London clearing banks that heavy short-term borrowing by the Government, which is the obverse to the Exchequer deficit, is swelling the banks' liquid assets. The expansion of the ratio of liquid assets to deposits—shown in the latest statement to be 35·9 per cent., easily the highest point since the return to a monetary discipline last November—must be checked if the pressure on the banks to restrict advances is to be maintained. The scale of net Governmental borrowing from the banks may have now passed its peak, for the Departments have no more calls to meet on the British Electricity loan and the holding of Defence Bonds and Tax Reserve Certificates has been made more attractive.

—And a Funding Loan?

If a tight rein is to be kept on credit, however, the Government may have to borrow on long term from the market, as it did in 1950, instead of on short term from the banks. If a funding operation were to take place it would have to be made on terms attractive to the institutions. The issue might well be of a longer dated stock, for there are already signs that the life assurance offices, whose cash balances were probably increasing while the stock market was so unsettled, are tending towards longer term gilt-edged stocks, with a high long-term yield, and away from the medium and shorter dated issues. A funding operation would mop up those liquid balances that otherwise might have been used to buy existing stocks. Such a step would therefore have a restraining effect on the course of market prices. Similar conclusions may be drawn from an examination of the banks' own gilt-edged holdings. In their mid-year accounts four of the " big five," departing from traditional practice, showed in effect the extent of the book loss on their holdings. As the majority of these holdings mature within the next ten years it is a reasonable assumption that the banks will be unwilling to sell any part of their holdings at present market prices and so turn a book loss into a real one. But if the banks are unwilling to sell their own holdings they will also be less willing to lend to industrial companies. These companies in turn may be forced to sell their holdings or to borrow more in the market. Both these factors would have, of course, a depressing effect on the course of market prices.

German Debt Settlement

A clever formula has been adopted in the German debt settlement to bring to an end the long dispute between the American and other creditors on the gold and dollar clauses. Payments on the Young loan are to be based on the exchange rates between the United States dollar and the other currencies concerned ruling when the loan was issued. The possibilities of a further depreciation are also guarded against by a formula based on the currency that has depreciated least since August 1, 1952. There can, however, be no doubt that the American creditors have exacted a price for their recognition of the vitally important issue that once an exchange clause has been inserted in a contract it should always be observed. For one thing, payments on the Young loan will in the future be pinned to the dollar, and not to the price of gold. Moreover, United States holders of the Young and Dawes loan are to receive a higher coupon rate when interest payments become due after the end of next March and also—for what it is worth—United States holders of the Dawes loan, whose maturity date has now been amended to 1969, will have the benefit of a heavier sinking fund when it comes into operation in 1958. It must be wondered whether a similar price will be exacted in the Japanese debt settlement.

The New Arbitrage in Commodities

The scheme under which the Bank of England authorised the purchase of dollar commodities for re-sale to EPU countries led to such an avalanche of applications from British merchants for exchange licences for these arbitrage operations, that within a week it had to be suspended. The scheme has not been completely withdrawn, but the authorities are now suggesting that merchants should re-apply for licences in a month's time. The reasons for the original " dash for freedom " and for the sudden retreat are equally clear. So long as Britain has to settle its EPU deficit wholly in gold—as it has to do while the deficit is above a certain ceiling—every EPU currency is as hard as the dollar. Any dollar expenditure on commodities that are re-sold in EPU countries will therefore bring a net gain in hard currency to the amount of the merchants' profit on the dealings, up to the point where the commodity sales so reduce the British deficit in EPU that it has to be settled only partially in gold. Within a week of the announcement of the scheme sufficient applications were received to threaten that this point might soon be reached unless the scheme were suspended.

Points from Published Accounts

Provision for E.P.L.

NOT ALL COMPANIES SHOW SEPARATELY THE provision for E.P.L. In the case of *F. H. Lloyd* it is lumped with profits tax, so that shareholders cannot gauge what might be the annual weight of the unwelcome new tax. However, the net profit carried to appropriation account is shorn of abnormal items. There are certainly several of these items on both sides of the accounts, but it is satisfactory that shareholders can compare their dividends directly with the net profit without any qualms for the validity of the comparison.

Non-recurring Items Again—

I. Allied Ironfounders

Non-recurring items appear on both sides of the profit and loss account of *Allied Ironfounders*, and it would have been desirable to segregate these and add or deduct the net difference to the balance brought forward from the previous year. The following items would then have been shown in a panel as follows. (Comparative figures are omitted as no purpose is served by their inclusion.)

	£	£
Exceptional credits:		
Profit on sale of investments and property	3,226	
Profit applicable to previous years ..	21,752	
Provision for deferred repairs no longer required	40,000	
Income tax over-provided in previous year	86,060	
		151,038
Exceptional debits:		
Pension scheme past service benefits	174,925	
Loss on sale of trade investment ..	7,619	
		182,544
Balance deducted from balance brought forward, as per appropriation account		£31,506

All of the above items are thus excised from the accounts. They should be shown at their net amount if there is any tax element, and the tax provision adjusted accordingly. By this means the shareholder would see a consolidated net profit stripped of abnormal items.

Trade investments are included with fixed assets. They may well deserve this classification, but it appears to the writer to be the usual practice to show them separately and, similarly, to include, as does Allied Ironfounders, quoted securities with current assets.

—II. William Baird

The accounts of *William Baird* contain an unusually large number of abnormal items, and it would have been simpler to present a single profit and loss appropriation account instead of one for the group and one for the parent. The former includes transfer from reserves and provisions no longer required, credits relating to previous years, a tax credit adjustment for previous years, loss on realisation of plant, and preliminary expenses written off, and the parent's profit and loss account includes an investment realisation loss and reserve for additional taxation. The parent is a holding concern, and the balance brought to its profit and loss account is £194,239. There is a reconciliation statement for this figure which seems unnecessary. It is presented as follows (comparative figures have been ignored for space considerations):

		£	
Balance brought down			£194,239
Dividends from subsidiary and associated companies and other income less charges		304,705	
Income from investments ..		73,734	
		£378,439	
Interest on 4 per cent. Debenture stock ..	£4,371		
Income tax on profits for year	179,629		
Auditors' remuneration	200		
		184,200	
		£194,239	

Courtaulds' Layout

The consolidated profit and loss account of *Courtaulds* commences with a group balance from trading and investment income, after taking into account items of income and expenditure and charges that are set out in a separate schedule. These items include depreciation, obsolescence and directors' emoluments, so that shareholders have to work out for themselves the prime trading profit. The composition of the tax charge, which is made as a single deduction, is shown in another schedule. It may be questioned if the treatment makes matters as clear as possible for shareholders. This is how the main part of the account is presented: comparative figures have been omitted for space considerations:

	Courtaulds £	Group £
COURTAULDS, LTD., INTEREST IN GROUP BALANCE ..	8,533,756	8,533,756
Deduct: Amounts retained by Subsidiaries	2,158,452	
BALANCE, BEING PROFIT OF COURTAULDS, LTD., FOR THE YEAR	6,375,304	
Add: Balance of profits brought forward from last year	656,877	1,240,377
Over-provision for taxation in previous periods	503,359	620,844
	£7,535,540	£10,394,977
Deduct: Transfers to Provision and Reserves (see Notes 3 and 4):		
(1) Reserves—		
(*a*) towards increased cost of replacement of fixed assets ..	1,912,674	2,371,847
(*b*) against increased cost of replacement of raw materials and other stocks ..	2,800,000	2,920,000
(2) Provision for staff and (in 1952) executive directors' pensions ..	450,000	466,050
(3) Revenue general reserve		327,982
(4) Capital general reserve		1,250,941
(5) Reserve towards increased cost of replacement of fixed assets (previous periods) ..		243,750
(6) Reserve against Government securities ..		6,749
	£5,162,674	£7,587,319
Leaving an available balance of profit of	2,372,866	2,807,658
Deduct: Dividends (less tax) of Courtaulds, Limited (see Directors' Report) ..	1,627,500	1,627,500
Balance carried forward included in Schedule 7 to the Balance Sheet	£745,366	£1,180,158

In his speech with the accounts the chairman says:

> The figures quoted must, however, be read with the two appropriations to reserve which appear lower in the account; the first relates to the increased cost of replacement of fixed assets, and the second to the increased cost of replacement of raw materials and other stock: together they amount to £5,292,000. We prefer to regard these items as appropriations out of profits rather than as charges against profits, but in any event there can be no doubt about their necessity.

The group balance sheet sets out matters extremely simply, and in a small space, but this is because there are seven schedules relating to the composition of many of the items, covering nearly twice as much space as the balance sheet itself.

Unconsolidated Subsidiary Assets

Lonsdale Investment Trust has one principal subsidiary, but both have other subsidiaries. The accounts of the parent and its principal subsidiary are presented separately, which is understandable in view of the differing nature of their business. Their subsidiaries have not been consolidated owing in turn to the differing nature of their businesses, and this has the Board of Trade consent. The profits figures are given in footnotes, but there is no statement of the assets attributable to the interests. This is of minor importance since the stakes at risk are comparatively small, but it would seem to be desirable to give this information in order to present shareholders with the complete picture.

Legal Notes

Company Law—Removal of Managing Director.

In Read *v.* Astoria Garage (Streatham) Ltd. (1952, 2 A.E.R. 292) the Court of Appeal affirmed the decision of Harman, J., which was noted in ACCOUNTANCY for July, 1952 (page 248).

Contract and Tort—Rights of Persons on Railway Property

The occupier of premises owes a higher duty of care to an invitee (a person who enters on business common to himself and the occupier) than he does to a licensee (a person who is allowed to enter on his own business by the occupier). In **Bloomstein *v.* Railway Executive** (1952, W.N. 378), B was a passenger on the tube from Camden Town to Euston; she then went up to the surface and tripped as she was leaving the main-line station. Under the Transport Act, 1947, the London Transport Executive, which controls the tube, and the Railway Executive, which controls the main line, are separate entities and it was therefore argued that B was in the circumstances only a licensee of the Railway Executive.

Parker, J., rejected this contention. All railway property was vested in the Transport Commission and B was their invitee. It was a mere matter of convenience that the Commission's powers, liabilities and duties were split up among the various executives and did not alter the nature of the duty owed to B.

Incidentally, one of the questions which the Lord Chancellor has referred to the new Law Reform Committee is whether any, and if so what, improvement, elucidation or simplification is needed in the law relating to the liability of occupiers of land or other property to invitees, licensees and trespassers.

Executorship Law and Trusts—Grant of Administration in England when Deceased was Domiciled Abroad.

When a person domiciled in a foreign country had died leaving an estate in England, the English Courts had adopted the practice of making grants of administration to those persons who, according to English law and practice, would have been entitled to a grant if the deceased had died domiciled in this country. This practice was felt to be wrong and on March 1, 1951, the President published a direction that, speaking generally, the proper course was to make a grant to the person who either had actually been entrusted with the administration by the Court of the deceased's domicil or was, by the law of the deceased's domicil, entitled to administer the estate, but this must be without prejudice to the Court's discretionary right to make a grant to other persons.

A direction of this kind has no binding force and is open to modification or reversal by judicial decision. This particular direction was tested in the case **in the Estate of Kaufman,** (1952, 2 A.E.R. 261) and the Court, after full argument, affirmed its correctness.

Executorship Law and Trusts—Carrying out Intention of Testator.

In **re Swords** (1952, 2 A.E.R. 281) the testatrix deposited with a bank her executed will and kept in her own possession a copy of a draft of the will. This draft differed from the will, for clause 3 of the draft had intentionally been left out of the will, with the result that clause 4 of the draft became clause 3 of the will and clause 5 became clause 4. When the testatrix wished to alter her will, she forgot the difference between the will and the draft. Looking only at the draft, she executed a codicil which *inter alia* purported to revoke clauses 3 and 5 of the will. Application was made for grant of probate of the will and codicil with the exclusion of these words of revocation from the codicil.

Wallington, J., granted the application. The basic principle was that, where there was evidence of a mistake made by the testatrix, the Court had jurisdiction to consider and decide the facts in order to determine whether the mistake was made by the testatrix and, if not remedied, would frustrate the intention of the testatrix as such intention appeared from all the facts and documents before the Court, and the Court might order that specified words should be omitted from, but might not direct that words should be added to, the probate of a testamentary document. In the case before him the mistake was that of the testatrix herself and the deletion of the words which he was asked to delete would clearly give effect to the intentions of the testatrix. It was right, therefore, that the words should be deleted.

Insolvency—Equitable Assignments

In **re Trytel** (1952, W.N. 355) the bankrupt, a composer, had about 1934 assigned his performing rights to the Performing Right Society Ltd., and thereby became entitled to the benefit of distributions made during his membership under the society's rules. In 1946 the bankrupt, for valuable consideration, assigned to a company all his rights to the benefit of those distributions. In 1950 he was adjudicated bankrupt and his trustee now claimed to be entitled to a considerable sum of money standing to his credit with the society.

A charge on the future profits of a business or an assignment by a member of a profession of his future earnings is inoperative against a trustee in bankruptcy as regards receipts accruing after the commencement of the bankruptcy. Danckwerts, J., said that those principles did not apply here because the bankrupt had assigned his copyright to the society. If he composed further works and wanted to be entitled to benefits from them, he would have to inform the society, but so far as concerned the works which he had already composed and the sums which had been received in distribution, the contract by him was wholly executed. There was an effective equitable assignment for consideration to the company, who were entitled to the money against the trustee.

Miscellaneous—Entry On Private Premises by Public Authority

The value of the Courts in preserving the liberty of the individual was once again shown in **Stroud *v.* Bradbury** (1952, 2 A.E.R., 76). A local authority served a notice on the owner of a bungalow that certain work should be done. The work was apparently not done and the local authority therefore had the right under Section 290 (6) of the Public Health Act, 1936, to enter the bungalow and do the work themselves, provided that, as was required by Section 287 (1), twenty-four hours' notice of the intended entry was given to the occupier. On February 17, 1951, the authority sent a letter to the owner saying that as she had not done the work they intended to proceed under Section 290 (6) of the Public Health Act, 1936. On June 1, 1951, an official of the authority attempted to enter the bungalow but was defied by the owner's husband with a clothes prop and a spade. The Divisional Court held that no proper notice had been given and that the husband was justified in his action.

THE SOCIETY OF
Incorporated Accountants

COUNCIL MEETING

JULY 24, 1952

Present: MR. C. PERCY BARROWCLIFF (President), Mr. Bertram Nelson (Vice-President), Sir Frederick Alban, Mr. A. Stuart Allen, Mr. F. V. Arnold, Mr. Edward Baldry, Mr. R. Wilson Bartlett, Mr. C. V. Best, Mr. H. J. Bicker, Mr. F. Sewell Bray, Mr. Andrew Brodie, Mr. Henry Brown, Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. W. H. Fox, Mr. A. Hannah, Mr. L. C. Hawkins, Mr. A. E. Middleton, Mr. T. H. Nicholson, Miss P. E. M. Ridgway, Mr. P. G. S. Ritchie, Mr. W. G. A. Russell, Mr. R. E. Starkie, Mr. Percy Toothill, Mr. Richard A. Witty, Sir Richard Yeabsley, with the Secretary, the Deputy Secretary and the Assistant Secretary.

REPORTS OF COMMITTEES

The Council received the minutes of recent meetings of the Finance and General Purposes, Development, Company Law, Disciplinary, Examination and Membership, and Applications Committees, of the Board of Examiners, and of the Committees of the South African Branches.

VICE-PRESIDENT'S BADGE

A cordial resolution of thanks was passed to the members of the Incorporated Accountants' District Society of Northern Ireland, who had generously presented a badge for the Vice-President of the Society.

EXAMINATIONS

It was decided that no questions on the Excess Profits Levy should be set in November, 1952.

The following dates were approved for the examinations in 1953: May 12 to 15 and November 10 to 13.

UNIVERSITIES AND THE ACCOUNTANCY PROFESSION

Approval was given to new courses to be held at Bristol and Southampton Universities under the universities scheme.

MEMBERSHIP

The Council approved applications for admission to membership, promotion to Fellowship, and registration as members in retirement, subject to payment of entrance fees and subscriptions as appropriate.

RESIGNATIONS

It was reported that the following members had resigned with effect from January 1, 1952: Hart-Cox, Ernest William, O.B.E. (Fellow), Kingswood; Rhodes, Horace (Associate), Halifax; Small, Francis (Associate), Philadelphia.

DEATHS

The Council received with regret a report of the death of each of the following members: Baker, Arthur Robert (Associate), London; Beaver, Alice Mary (*née* Paynter) (Associate), Cape Town; Brand, Cecil Holmes (Fellow), London; Fairbrother, Thomas, M.B.E. (Associate), Beckenham; Gent, John Henry (Fellow), Sutton Coldfield; Gregory, Howard Percival (Fellow), Cardiff; Harris, Sydney John (Associate), London; Henderson, James Hubert (Fellow), London; Hooley, Harold Towle (Fellow), Nottingham; Morpeth, Charlton Douglas, M.B.E. (Fellow), Wellington, N.Z.; Newton, Harold George Abbot (Associate), Luxemburg; Payne, Harry William (Fellow), London; Richards, Richard Albert, T.D. (Fellow), Cardiff; Seaton, Malcolm (Associate), Manchester; Sharp, Harry (Fellow), Manchester; Thomson, Edwin Victor Coats, J.P. (Fellow), Penang; Tunnington, Charles (Fellow), Liverpool.

REGISTRATION OF BYE-LAW CANDIDATES

AS FROM JULY 1, 1953, A CANDIDATE WHO decides to seek admission to the examinations under Bye-law 10 must make application to the Society for registration as a Bye-law candidate. An application for registration will not be accepted until the candidate has reached the age of $17\frac{1}{2}$ years and has passed or obtained exemption from the Preliminary Examination.

Registration by itself will not give an automatic right of admission to the examinations, and a Bye-law candidate will not be permitted to sit for the examinations until he has completed the following periods of continuous and approved practical training since the date of registration:

Intermediate	3 years
Final: Part I	5 years
Part II or Parts I and II together	6 years

In the case of graduates of any of the recognised universities in the United Kingdom of Great Britain and Northern Ireland, and in Eire, the Council may, at its discretion, reduce the training periods specified above by not more than two years.

An application for registration as a Bye-law candidate must be accompanied by a certificate of service from the employer stating the duration of the applicant's service and the nature of his duties.

Subsequent applications to sit for the Intermediate and Final Examinations must also be accompanied by certificates of service from the employer which should include the duration of service, nature of experience to date, and confirmation that the application has the employer's support.

A Bye-law candidate will be required to notify the Society of every change in employment during his qualifying service. Continuance of registration will be dependent upon the Council being satisfied that the candidate is receiving training in accordance with the requirements of the Society, and any candidate may apply to the Society in order to assure himself in advance that any proposed change in employment will not affect registration.

Accountancy clerks who wish to proceed to the Society's Examinations but who have not as yet either sat for or made application for exemption from the Preliminary Examination are advised to do so before July 1, 1953. Failure to do so will nullify any previous service in the profession for the purpose of calculating the six years' service required under the Bye-laws.

EVENTS OF THE MONTH

September 18.—*Bradford:* "The Excess Profits Levy," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

September 22.—*Bedford:* "Income Tax Schedule D—Treatment of Losses," by Mr. J. W. Walkden, A.C.A., A.S.A.A. Students' meeting. Harpur Central School, at 6 p.m.

September 26.—*Bristol:* "Executorship: Aggregation for Estate Duty," by Mr. J. Linahan, A.S.A.A. Students' meeting. Royal Hotel, at 6.30 p.m.

Southsea: Dinner.

September 26 to 30.—*Oxford:* Incorporated Accountants' Course on Management Accounting, at Balliol College.

September 30.—*Shrewsbury:* "Company Accounts," by Mr. P. E. Harris, A.S.A.A. Raven Hotel, at 6.30 p.m.

Waterford: "Amalgamations and Reconstructions," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. Students' meeting.

October 1.—*Bristol:* "Standard Costing," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Students' meeting. Royal Hotel, at 6.30 p.m.

October 3.—*Birmingham:* "Modern Presentation of Published Accounts," by Mr. R. Glynne Williams, F.C.A. Law Library, Temple Street, at 6.15 p.m.

Manchester: "Elements of English Law," by Mr. J. Stewart Oakes. Students' meeting. Incorporated Accountants' Hall, 90, Deansgate.

Sheffield: Dinner.

October 6.—*Luton:* "Consolidated Accounts," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A. Students' meeting. Town Hall, at 6 p.m.

DISTRICT SOCIETIES

YORKSHIRE

AT A MEETING OF THE COMMITTEE HELD AT Leeds on June 18, the following officers were elected: President, Mr. E. Emmerson; vice-presidents, Mr. A. J. Brindley and Mr. W. B. Holliday; hon treasurer, Mr. T. Hayes; hon librarian, Mr. T. W. Dresser, 2, Basinghall Square, Leeds, 1; hon. secretary, Mr. B. C. Stead, 8, East Parade, Leeds, 1.

EXAMINATIONS, NOVEMBER 1952

THE SOCIETY'S EXAMINATIONS WILL BE HELD on the following dates:

Final: Part I November 11 and 12, 1952.
Part II November 13 and 14, 1952.
Intermediate: November 13 and 14, 1952.
Preliminary: November 13 and 14, 1952.

The centres will be Belfast, Birmingham, Cardiff, Dublin, Glasgow, Leeds, Liverpool, London, Manchester and Newcastle upon Tyne.

Completed applications, together with all the relevant supporting documents and the fee (Final, Part I, £3 3s.; Part II, £3 3s.; Parts I and II together, £5 5s.; Intermediate, £4 4s.; Preliminary, £3 3s.), must reach the Secretary, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2, not later than Monday, September 22, 1952.

Candidates are asked to obtain application forms from the Honorary Secretary of their Branch or District Society.

PERSONAL NOTES

Mr. G. L. Pratt, A.S.A.A., secretary since 1932 of T. Wall & Sons, Ltd., has retired after 27 years with the company.

Messrs. Crick & Bussell, Incorporated Accountants, London, E.C.2, have admitted Mr. R. A. C. Norris-Jones, A.S.A.A., as a partner.

Messrs. Lowe, Bingham & Thomsons, Certified Public Accountants, announce the retirement of Mr. A. J. Kane, F.C.A., C.P.A., and of Mr. M. C. Halton, C.A., C.P.A. The practice will be continued at Tokyo by Mr. D. J. Benson, F.C.A., C.P.A., Mr. E. J. V. Hutt, A.S.A.A., C.P.A., and Mr. W. Salter, C.P.A., and at Kobe by Mr. Benson, Mr. Hutt, and Mr. W. Lackie, C.A., C.P.A.

Messrs. Prior & Palmer, Incorporated Accountants, Nottingham, have taken into partnership Mr. P. H. Palmer, A.C.A., A.S.A.A., the son of one of their principals, who served his articles in their office.

Mr. Ralph A. Tucker, A.S.A.A., Carmarthen, has taken into partnership Mr. Harry Lord, A.S.A.A. They are practising as Tucker, Lord & Co., Incorporated Accountants. An additional office has been opened at Heathside, Pendre, Cardigan, and Mr. Lord will be established there.

Monsieur Léon Constantin, Expert Comptable, Mr. Herbert Goodier, M.B.E., F.C.A., and Mr. Wm. G. Smith, F.A.C.C.A., A.T.I.I., have entered into partnership as Constantin, Goodier & Smith, with offices at 66, Rue Caumartin, Paris, IX^{e}, and 92, New Cavendish Street, London, W.1. Mons. Léon Constantin will also continue in his own name the practice he has carried on for many years in Paris, New York and Casablanca, and Messrs. Goodier and Smith will continue their practice at the London address. The new partnership will deal with matters arising jointly in England, France and other countries.

REMOVALS

Mr. R. Vaughan, Incorporated Accountant, announces a change of address to 307, Union Road, Oswaldtwistle.

Mr. A. J. Gould, F.S.A.A., has removed his office to Caxton House, The Crescent, Newquay, where he is practising under the style of A. J. Gould & Co., Incorporated Accountants.

Mr. R. G. Herman, Incorporated Accountant, is now practising at 84, Kensington High Street, London, W.8.

Mr. Henry Yates, Incorporated Accountant, has transferred his office to 9, Theatre Street, Preston.

OBITUARY

ARTHUR COLLINS

We record with deep regret the death on July 26 of Mr. Arthur Collins, F.S.A.A., F.I.M.T.A., at the age of 72.

Mr. Collins became a member of the Society of Incorporated Accountants in 1905, after being awarded the Silver Medal for 1904. He also received first prize in the Final Examination of the Institute of Municipal Treasurers and Accountants. Later he served for some years on the Councils of both bodies, and became president of the Municipal Treasurers.

In 1921 he resigned the office of City Treasurer of Birmingham and set up in practice in Westminster. His advice on local government finance was widely valued, and he was a member of a number of Departmental Committees on national and local government administration. He travelled widely for research on local government, and visited the U.S.A. and Canada during the war on behalf of the Ministry of Information. He was author of several books on municipal finance and accounts.

Mr. Collins was an alderman and honorary freeman of Bromley, Kent, and was mayor in 1944-45. He was chairman of the Conservators of Hayes Common, and of Bromley Group Hospital Management Committee.

His interest in the Society of Incorporated Accountants was active and sustained. He was a member of the Council from 1924 to 1940, and a vice-president of the Incorporated Accountants' Benevolent Fund from 1928 until his death.

The funeral service took place at Hayes Church, Kent, on July 30. Flowers were sent on behalf of the Society.

SYDNEY THOMAS TUNBRIDGE

We record with regret that Major S. T. Tunbridge, T.D., F.S.A.A. died on July 27, during a visit to South Africa.

He became a member of the Society of Incorporated Accountants in 1903, having taken Honours in the Final Examination. He was at that time with Messrs. Lovewell, Blake & Co., Great Yarmouth, with whom he remained until the outbreak of war in 1914. His military service was followed by a short period in the accounts branch of the War Office, but in 1920 he commenced practice at Great Yarmouth and Lowestoft. The two offices later became separate firms, but he remained senior partner of both until his retirement in 1949.

Mr. Tunbridge was President from 1935 to 1939 of the Incorporated Accountants' District Society of East Anglia, and retained his membership of the committee even after retiring from practice.

He was for a time vice-chairman of Yarmouth Cricket Club, and was also a keen player of golf and bowls. He was a past master of the Lodge of United Friends at Yarmouth.